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Decentralization and Intergovernmental Relations In Social Policy: A Comparative Perspective of Brazil, Mexico and the US¹

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Federalist systems are considered centralized when the national government has greater weight in the formation and implementation of public policy and in decisions concerning resource allocation than subnational governments. In a decentralized federal system, subnational governments have some degree of autonomy or discretion in these two arenas. Even though national and subnational governments share responsibilities for policymaking and implementation, the relative autonomy or independence of action among subnational governments is an important element of the policymaking context. Assessing the degree of relative autonomy can be determined through the analysis of intergovernmental relationships across multiple policy areas.

The decentralization trend observed in Mexico, the USA and Brazil in recent decades affected the relationship between the central government and state and local governments in each country. In Brazil, for example, a shift from a model that concentrated most policymaking in the federal level and limited resources accessible to subnational governments to a new arrangement with expanded roles and responsibilities of the subnational governments and transferred resources to subnational spheres has occurred. This process was associated with redemocratization and creation of new institutions at the state and the local level to incorporate civil society into public policy making. In Mexico, however, while similar, the level of transfer of corresponding resources appears to have been more constrained than in Brazil, barely allowing the states to exercise their newfound functions effectively. Moreover, the federal government continues to exercise a strong hand in policy formulation – even after the advances under New Federalism and the new PAN administration. In the USA, which entered the period with a much more decentralized

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system than Brazil and Mexico, decentralization also implied an increase of the policy responsibility at the state level.

The effect of decentralization and intergovernmental relations on social policy is the focus of this paper. It will consider structural and institutional features of intergovernmental systems as well as the performance of subnational governments in the decentralized policy systems. The paper confirms that the policymaking systems have become more decentralized, itself a well-established finding, but that the performance of these systems is subject to inherent federal-subnational tensions related to resources, institutions, bureaucratic behavior and politics. To be sure, the federal governments retain important policy roles and instances of recentralization affecting subnational autonomy can be observed. Despite a range of constraints on the subnational role in policymaking, examples of improved subnational policymaking, if not innovation, abound. Incentives and disincentives for collaboration and innovation are identified.

This paper is organized in four sections. The first discusses the effects of reform on federal-subnational relations in terms of policymaking. The second section assesses the performance of these decentralized systems, with particular attention devoted to tensions and conflicts between the federal and subnational governments. The third section addresses relationships among state governments and among local governments, including the reasons why these levels of governments compete and collaborate in the three countries, a relatively understudied feature of decentralization. The paper concludes with the findings concerning performance and challenges of the subnational state in the context of evolving intergovernmental relations and decentralized policy systems.

DECENTRALIZATION AND PUBLIC POLICY: The Intergovernmental Context

In the early 1980s, the Brazilian state had a very centralized system of decision-making and control of public finance, a legacy of the military dictatorship. The federal government possessed an institutional structure adequate to the demands of centralized decision-making and implementation. In many instances, federal implementation involved state and local agencies in administrative roles, but with quite limited discretion. Decentralization, especially for social service provision, assumed an ever-increasing importance in the reforms proposed by various sectors of civil society. The Constitution of 1988, which incorporated these proposals for social policy reform, expanded the importance of state and, especially, municipal government in terms of new functions and responsibilities. The Constitution ratified decentralized policymaking by establishing that provision of essential services (education, health, social assistance and public works) would be principally the responsibility of municipalities, with secondary roles for state government, and only under extreme circumstances would the federal government assume a role. In this new arrangement, however, the federal government retains a prominent role in the definition of rules and guidelines for the subnational policies and controls the transfers of funds.

Even though the adoption of the new Constitution led to an increase in the resources made available to states and municipalities, the intergovernmental distribution of competencies remains poorly defined. The effective transfer of operational attributes and decision-making authority did not accompany the increase in resources. This paradoxical situation results from ambiguities in the definition of competencies of state and local governments. Despite the availability of new resources in the first years after 1988, the effective transfer of policy making to municipalities did not occur. The lack of clear definition generated inefficiencies, irrational definitions of programs, services, and clients, discontinuities and waste of resources. As a result, achieving efficiencies and equity in social policies remain difficult and the high levels of regional inequalities further complicate the challenge (Melo, 1996).

This can be seen, for example, in the area of health care, an integrated and decentralized system (Sistema Único de Saúde-SUS) involves each level of government following broad federal guidelines but with policies and priorities defined by local government (Arretche). The objectives of the SUS include universal service and the substitution of curative services that had dominated health policy in preceding decades by a preventive health care approach. SUS is the only federal policy that has been effectively decentralized and possesses, at least theoretically, the automatic transfer of federal resources to states and municipalities. Since 1990, a negotiated process has progressively led to a more decentralized system with principal responsibility for service provision in the hands of municipal government but permitting a differentiated municipal role, according to the extent to which the municipalities meet federal requirements. Full municipalization of health services occurs only upon request from a municipality. The development of operational capacity in municipalities was initially slow and in 1996 less than 5% of the municipalities participated as providers of the full range of services. However, the number of municipalities, including both small and large municipalities, increased quite substantially in following years.

The USA entered the 1980s with “elaborate networks of administrative connections between national and state agencies” created in the 1960s when federal aid programs expanded substantially in number and size (Bowling & Wright 1998). This legacy contributes to the complexity of existing federal-state relations and to the great variation of relations across policy areas. Substantial, if not dramatic, decentralization of authority, to states and, in some cases, local government, in design and implementation of public policy occurred in many fields in the 1980s and 1990s. In some instances, the decentralized policymaking was authorized explicitly by Congress while in others Congress granted to federal implementing agencies to grant waivers of federal requirements to qualifying states. In both types of action, federal funding of program initiatives remains significant.

Expanded decision-making authority granted by federal agencies to states agencies for administering federal program can be found in the Department of Health and Human Services. It provides waivers for the Medicaid Section 1115 program (Schneider, 1997, pp 89-109), allowing a state a substantial degree of experimentation and innovation in program delivery. With the collapse of federal health reform during the first Clinton administration, states increasingly turned to waivers as a means to respond to extensive

change in the health industry. In the Education Flexibility Demonstration Act of 1999, states' prerogatives to waive certain federal requirements and establish their own programs for improving education were expanded (Schram and Weissert, 1999, p.5). This type of intergovernmental interaction has been described as "discretion seeking" in that states request a suspension or alteration of program requirements, a redefinition of a program as a model of experiment, or greater implementation flexibility in return for higher performance standards (Agranoff, 1999, p.352). Governors find this approach very attractive since it, in effect, avoids negotiating with Congress on program design. In the USA, recent decentralization has been enabled by congressional and executive branch actions. However, the shift in intergovernmental relations has also been depended on subnational governments taking action on their own.

The passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 marked a significant change in national policy and a striking example of decentralization of policymaking. Fostered by a dramatic decline in public support for federal welfare policy, a bipartisan commitment to deficit reduction, and a strong economy, the basic structure of welfare policy was modified and national welfare standards effectively eliminated. Even though performance requirements continue to condition federal funding, states were delegated responsibility and far-reaching discretion in the design and implementation of welfare policy. States have adopted a wide range of approaches to eligibility, training requirements, time limits, and other issues. An 2000 report by the Government Accounting Office highlights the difficulties encountered by states in helping families become economically independent, but argues these can best be addressed at the state level in collaboration with local agencies (General Accounting Office, 2000).

In Mexico, the process of decentralization was intended to strengthen municipalities (Reform of Article 115 in 1983), but, in effect, was negated by the state governments. The state governments blocked the autonomy that was to have come to municipalities through more control over their finances as the states immediately found mechanisms to retain control over municipalities. It was the opposition parties at municipal level who were not beholden to the PRI governor overlords (as were their PRI municipal president counterparts) that began to exercise the newfound responsibilities with which they were empowered by ART 115. Fearful that their governments would suffer from the withholding of resources, these same administrations sought to raise local internal revenues through taxation and consumer charges for services (Rodríguez, 1995; Ward, Rodríguez and Cabrero 1999).

In later attempts at decentralization and devolution during the 1990s, states were bypassed almost entirely by the federation – in part to avoid a repetition of what had occurred earlier. This was particularly the case with social policy and anti-poverty programs such as the highly lauded (albeit controversial) National Solidarity Program initiated in 1989 by then President Salinas. In some instances even municipal governments were bypassed as community groups and organizations became beneficiaries of Solidarity projects. As Solidarity became more successful, new mechanisms developed that once again strengthened states, albeit not at the expense of municipalities (at least not as obviously as

in the past). For example, in each state Solidarity “coordinator” was appointed to oversee all Solidarity projects in the state. In some cases these were so powerful and had such plentiful resources that they became almost “parallel” governors. Whereas in the past municipal presidents would seek funding from the governor, now they sought it the Solidarity coordinator.

In the Zedillo administration, while PROGRESA maintained the local focus of Solidarity, efforts at decentralization did focus specifically on the states. No longer was there the pretense that development funds were directed exclusively at municipalities. A series of fiscal reforms and the creation of new Ramos (budget lines) were designed to strengthen the hand of the states as they dealt with municipalities. For example, more funds were allocated for municipalities, but managed and distributed by the states. Even funds targeted for municipal infrastructure and municipal development (the FAISM and FAFM respectively) were under state and federal control. Although it is now has a new name (*Oportunidades*), the Fox administration has maintained and developed the arrangement with larger allocations of resources from the federal government to the municipalities including urban ones (that will in principle give them more autonomy) but under control of the state governments.

Thus, in the Mexican case of New Federalism, a clear tendency to strengthen the role of the state vis-à-vis the municipality is observed. Clearly, this does not mean to imply that municipalities have not improved their position at all; they have. But in the end, the winners have been the states, and almost always under close political control of the federation. Indeed, the strengthening of the role of the Congress that oversees fiscal and intergovernmental transfers has paradoxically both strengthened the principles of federalism and intensified scrutiny of subnational government performance. At the same time, however, state legislatures are also modernizing and becoming more influential especially in oversight and authorization of state budgets. Moreover, the rationale for breaking with traditional vertical linkages and working more collaboratively between state led to very recent creation of a governors association (CONAGO) that is becoming a major player in federal-state relations, discussed below.

In Mexico administrative decentralization is clearly seen in almost every policy arena; yet there are very few cases or examples where federal government has completely devolved authority. The two most visible cases of decentralization are education and health, both involving state governments. In general, the municipalities have few functions with regard to education, and of those it does have, practically none are compulsory. That is, the execution of these functions is at the discretion of the municipal authority and few have sought to undertake such functions. Part of the problem in Mexico (as elsewhere) is that the decentralization of specific programs or policies cannot be implemented at the local level because of the lack of human and financial resources.

THE NATIONAL AND THE SUBNATIONAL: TENSIONS AND OPPORTUNITIES

The relations between federal government and subnational governments have been reshaped during recent decades in each of the three countries. Scholars of federalism suggest that one should expect these relationships to be ever evolving (Eaton, 2004). Sufficient time has passed to initiate an assessment of the effects of recent reforms on intergovernmental policy systems. This section first considers the roles of federal government and then the types and sources of conflict in intergovernmental relations. Finally, factors critical to explaining the many cases of success in federal – subnational cooperation in the decentralized social policy systems are identified.

Arenas of Federal Government Leadership (and Lack Thereof)

Federal government roles in policymaking can be determined by (1) constitutional assignment of key functions, as in defining national purpose, (2) practical considerations, such as efficiency in revenue generation, and (3) institutional legacies. Despite substantial decentralization of policymaking and implementation in the three countries, in many instances federal initiative continues to prevail. In this section, the changing roles of federal governments are identified and explained. But whether due to the nature of a policy issue, e.g. national purpose, or failure or incapacity of subnational governments to act, the federal government of the three countries retains key leadership roles in some policy areas. Finally, areas in which federal leadership appears to be lacking, thus complicating subnational policymaking are identified.

In the policy systems of the three countries, the degree of federal dominance has declined, as discussed above. Federal governments continue to induce action by subnational governments but, in general, with less heavy-handed means. For example, in Brazil, the federal government attempts to induce or standardize activities of lower levels of government. The new public policy initiatives have transformed municipalities from a mere administrator of federal programs but municipalities have yet to become fully autonomous in policymaking. The redefinition of competencies and responsibilities in social areas, as in the implementation of the family health program by the municipalities, assigned to municipalities the formulation of local policies but federal guidelines have to be followed. For health policy more broadly, to assume full responsibility for the Unified Health System (Sistema Unificado de Saúde) municipalities must follow strict guidelines defined by the federal government. In education, local governments in managing basic education can decide how to allocate educational resources and to design course content and processes based on the characteristics of the local student population (Draibe, 1997). However, this flexibility is confined by the federal guidelines. Access to the resources of FUNDEF (Fundo para o Desenvolvimento da Educação Fundamental) depends on meeting a series of criteria defined by the federal government. These examples show a federal government stimulating local action by providing incentives and assisting in the decentralization of programs, but maintaining political or operational control in management and distribution of resources (Oliveira e Biasotto Jr., 1999, p.22). That is to say, local initiatives must follow federal guidelines.

In Mexico, notwithstanding major sectoral decentralization (in health and education) and some reform to the system of revenue sharing, the incentives for state or local

governments' actions remain closely tied to federal fiscal supports and priorities. There has been very little further legislative strengthening of either the state or municipal competencies. States, in particular, remain fiscally handicapped, and until very recently, municipalities were prevented from contracting external debt (Ward et al., 1999). For example, both the FAISM and FAFM funds (for social infrastructure and municipal support), offered significant additional sources of local funding, but were closely supervised and tied to federally mandated programs. But these federal initiatives served as important inducements, nevertheless.

Even though decentralization in the USA was partially a response to the critique that the federal government overstepped its authority in state government affairs, the federal government continues to act forcefully through the intergovernmental system. But, in general, the federal government has become less heavy handed. As the negative impact of welfare reform on health insurance coverage became clear, Congress approved a 1997 budget resolution that provided \$24 billion to fund medical coverage for uninsured children. Participation of states was optional and matching funds had to be provided. The need for national standards, and the revenue raising capabilities of the federal government provided the justification for this effort.

In one policy area, health regulation, the traditional pattern of federal action to coordinate or influence state actions re-emerged. The Health Insurance and Portability and Accountability Act (HIPPA) of 1996 replaced a system of authority divided between state and federal governments with a system in which federal authority provides a framework for state action (Ladenheim 1997, pp. 33-51). Even though a case of preemption, federal action was viewed as necessary to protect insurance holders from negative impacts of the variation among state regulatory policies. It represents one of the first significant federal intrusions into state government authority to regulate insurance, a domain where state authority has remained largely intact.

Conflicts and Challenges

Given the size and complexity of the governmental systems and the range of policy responsibilities discussed in this study, it can hardly be surprising that a quite complex pattern of change, at times even inconsistent tendencies, has emerged. The decentralization process has generated conflict among governments of three types: a) ambiguous roles and bureaucratic resistance to change; b) fiscal federalism and the management of state debt; and c) unintended impacts of decentralization on state-local government relations.

But examples of collaboration and even innovation in intergovernmental relations can also be observed. In this section, after discussing findings concerning sources of conflict and cooperation, several challenges to decentralization in the three countries are identified.

Ambiguous definitions of roles and responsibilities, at times accentuated by resistance from bureaucratic officials at higher levels can generate conflict. In Mexico the process of decentralization, even though federally mandated and containing a serious commitment to devolve responsibilities to the states, encountered major resistance. In education, for example, there was little ambiguity in the blueprint and legislative guidelines. But fears about possible resource withholding by central government, resistance from teachers'

union over implementation and effective control of hiring practices, and the anomalies arising from an existing dual system (federal and state) in some states all emerged as important constraints to implementation. Nevertheless, the program is now firmly in place. This type of conflict, arising from uncertainties generated by changes in large, complex systems, may be transitory.

In Brazil, similar tensions among the actors emerged. On one side, the federal government and its bureaucracies attempted to maintain political and financial control over services, transferring responsibilities without a clear model of coordinated federalism. On the other side, governors and mayors attempted to secure greater transfers without specification of spending priorities by taking advantage of the ambiguous definitions of intergovernmental responsibilities (Abrucio e Costa, 1998). In the USA, with its long history of shared policy responsibilities, moments of shifting intergovernmental responsibilities frequently generate tensions but these tend to be resolved within the implementation structures themselves. governors and congressional oversight can be helpful in resolving such tensions.

Explaining Cooperation and Innovation

Decentralization and greater subnational autonomy have also led to cooperative and innovative initiatives. A pattern of cooperation and innovation in federal-subnational government policymaking in the USA has existed for many decades in a variety of policy arenas. Some examples rely on provisions in the US constitution and others result from incentives or requirements in federal legislation. This is also becoming increasingly common in Mexico and, especially, in Brazil. In general, the degree of cooperation and coordination is greater when: 1) the policy issue has significant spatial externalities crossing multiple jurisdictions; 2) an appropriate incentive structure is embedded in federal policy; and 3) local governments have inadequate resources to meet needs. But in decentralized systems where local leadership and policy initiative are not found universally, these structural explanations of cooperation must be supplemented. Innovative collaborative policy was found in the form of local governmental actions enhancing the effectiveness of federal initiatives and of local innovative initiatives being adopted by a higher level of government. In the latter, local governments are effectively experimenting with new approaches to policy challenges.

Incentive structures embedded in implementation strategies of federal policy can create the conditions for multiple interests at the subnational level to collaborate in innovative and productive ways. In the Mexican social policy arena, opportunities for cooperation are substantial, but they are articulated through carefully circumscribed mechanisms such as the FAISM and the FAFM which mandate approved areas of possible funding and collaboration. Elsewhere, cooperation occurs in the decentralized federal agency - the local PROGRESA or SEDESOL offices for example. In matters relating to health and child welfare since the 1970s, the nationwide DIF (Family Integration Development) has linked municipal DIFs operated by the Municipal President's spouse. But this too has been hierarchically organized from the top down through the spouse of the national president and the state governors' respectively.

Few attempts to “municipalize” public education exist in Mexico. Generally decentralization has gone no further than the state level, and neither municipalities nor parents are effectively engaged. However certain states such as Guanajuato and Aguascalientes have successfully created specialized teams for educational administration and planning, and this has occasionally encouraged novel approaches to be adopted by state and local organizations (Arnaut, 1999). Generally, though, in Mexico unmandated cooperation remains the exception that proves the rule.

In these forms of coordination localities are assigned a role, with some discretionary authority, to implement programs following federal guidelines. In Brazil, some municipalities formulate health policy tailored to prevailing local conditions, taking advantage of federal guidelines and resources but reshaping them to fulfill local goals. The federal guidelines, in these cases, guarantees that local action will be consistent with the adoption of a new health model, one based on prevention and health education (Farah, 2000). Similarly in Mexico, state housing agencies have generally been quite successful in leveraging funds from national housing funds like INFONAVIT and FONHAPO as the latter have become increasingly intermediary or “second line” funding agencies, delegating decision making to the subnational level so long as broad funding guidelines are met. States, too, have become more effective in leveraging funding for housing and urban development from private sector housing actors who are given incentives to provide sub-market interest rate loans to state and local housing agencies.

The approval of federally funded housing programs in a municipality illustrates the challenge and benefits of coordination. The necessary coordination among local, state and federal agencies is quite difficult and the approval of a single project may require two years. The Technical Cooperation Agreement established between the Special Secretary for Urban Development (Secretaria Especial de Desenvolvimento Urbano) in the President’s Office, the Secretary of Housing of the State of São Paulo, the Secretary of Housing of the Municipality of São Paulo, and the Federal Savings Bank (Caixa Econômica Federal) attempts to make less bureaucratic and more flexible the access to popular housing by requiring integrative action of the various levels of government and other entities (Cherkezian, 2001).

The actions of local governments can enhance the effectiveness of federal policies, as illustrated by a rural credit program in Brazil. The National Program for Development of the Family Farmer (Programa Nacional de Fortalecimento da Agricultura Familiar-PRONAF) was created to expand access to national credit for rural development programs. In response to rules of the federal program that effectively excluded many small farmers from access to this credit, several municipalities sought mechanisms to overcome this barrier (Farah e Barbosa, 2000). Creative local action, as distinct from mere administration of federal policies, illustrates how intergovernmental cooperation overcame obstacles faced by the federal government due to inadequate knowledge of local conditions (Farah, 2000).

An encouraging outcome of greater local government autonomy has been many examples of local innovation that become models for policy at higher level of governments or for

other governments at the same level. In the USA, this phenomenon was recognized and appreciated in terms of state level initiatives in the early 1900s, when state governments were leaders in social welfare, workmen's compensation, vocational education, minimum wage, and administrative efficiency (Robertson and Judd, 1989, pp.35-53). In 1932, Supreme Court Justice Louis D. Brandeis wrote, "It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory, and try novel social and economic experiments" (New York State Ice Co). Recent decentralized policymaking has again encouraged innovation at the state level and in few instances these innovation were adopted at the federal level.

In Brazil, inspired by the pioneering example in the city of Niteroi in 1992, the family doctor (Médico de Família) program was implemented initially in a few municipalities as a local initiative, a result of the proposals of health workers and social movements. In the mid-1990s, the family doctor program was adopted as a federal policy and implemented in a decentralized manner under guidelines of the Minister of Health in most municipalities. Similarly, Bolsa Escola, a program that encourages to children attend school by providing a small stipend to families, was first implemented by municipalities and later incorporated in federal policy and a national program.

THE NEW PATTERNS OF INTER-GOVERNMENTAL RELATIONS: IMPLICATIONS FOR PERFORMANCE OF POLICY SYSTEMS

In Brazil, with expectations for increased in efficiency and efficacy public policies, administrative reform of social policies, and reduction in public spending were among the principal state reform objectives that the Cardoso government enunciated in 1995. Although not fully implemented, the proposed changes in social policy depended directly on the restructuring of intergovernmental relations and the creation of a federal system of cooperation and coordination (Afonso e Araújo, 2000; Neves, 2000; Arretche e Rodrigues, 1999). The venue for local decision-making, defined by the Constitution of 1988, creates the opportunity for cooperative action among levels of government and state agencies that are less asymmetrical than the system of social policy existing prior to the 1980s. This constitutes an important dimension of recent change in intergovernmental relations. Although the Lula administration remains committed to many of the same social policies, the restructuring remains incomplete and has progressed unevenly, subject to systematic restrictions in social spending related to the priority placed on macroeconomic stability.

The subordination of local governments to federal guidelines in Brazil has been interpreted as an indication of a managed decentralization process that violates the spirit of collaboration and cooperation. But the action of the federal government can also be understood as an effort to coordinate the process, which otherwise would be highly fragmented and would incur the risk of increasing the existing regional inequalities and the great differences in financial, technical and political capacities among municipalities. The decentralization in Brazil is ongoing, but in spite of its different rhythm in different sectors and regions, it has already made important contributions to the policymaking process. On the other hand, its limits and challenges are today more visible and explicit than in the years immediately following democratization, when the ideological climate associated

decentralization to democracy and policy effectiveness. Today the need of some coordination from the higher levels of government to overcome excessive fragmentation and substantial inequalities between regions is recognized. It is also evident that the consolidation of democracy and autonomous government at the local level requires a long process of political and technical capacity building among segments of civil society as well as public officials, to avoid capture of political processes by the old clientelistic mechanisms.

The pace of decentralization in Mexico has been somewhat slower compared to Brazil and, as a result, the performance of shifts in intergovernmental relations is hard to assess, even in those areas that have gone furthest such as education (Robles, 2003). On some measures, subnational government has clearly been strengthened. But continuing resistance in federal agencies and slowly developing local governmental capacity, especially in terms of financial resources, still renders an assessment of performance premature. In contrast to Brazil, however, it appears safe to conclude that the changes to date have not generated the same level of enthusiasm and commitment to decentralized policymaking, especially from state executives suspicious that they, in effect, must do more with less. Whether this is a reflection of inflexible laws and rules or bureaucratic and political culture, the pace of change is slow.

In the USA, among the criticisms raised of decentralization in the 1980s was that decentralized systems would generate competition among states resulting in poor policy decisions, the so-called race to the bottom, and that disparities in tax bases would generate inadequate service provision in some states. As one should expect in a large federalist system, instances where these fears were realized can be found. However, in large measure, states and local governments have performed well. One study of welfare reform, environmental regulation, and state competition for corporate charters concluded that: "states can do better than the federal government as creators, managers, and financiers of certain programs" (Lorch, 1998, p.159). Although the performance of decentralized systems in the USA will continue to be disputed, the opportunity afforded by a decentralized system for state and local government to serve as laboratories for public policy experimentation and to adapt to local circumstances presents a quite positive feature. Nevertheless, what has become clear in the case of the USA, a federal presence, if not leadership, is needed even in decentralized systems. The federal government can prevent the more pernicious race to the bottom outcomes and insure issues of national importance are addressed in a coordinated fashion.

FINDINGS AND CONCLUSIONS

Substantial transfer of authority and responsibility in some policy areas from federal government to state and local governments appears in each of the three countries. In most instances, however, policy making and implementation remain shared responsibilities of federal and subnational governments. In broad terms, in Brazil and Mexico, overall policy formulation remains largely a federal government prerogative but with important roles of implementation in state (Mexico) and, especially, municipal governments. In the USA, states and local governments tend to have a more significant role in formulation of policy

and, certainly, in implementation. In the three countries, the decentralized systems reflect substantially heterogeneity on the subnational role within each country. The level of resources and capacity available substantially affects the ability and political will of local actors to assume new roles. In each of the three countries, one can also observe that significant change in these very large and complex systems is not easy.

Notwithstanding the trend towards enhanced roles for subnational governments, federal governments continue to assume critical policy functions in all three countries. In some cases, a clear national purpose suggests that federal leadership is vital. In yet others, federal leadership may be the result of recognition of inadequate subnational capacity, as in revenue generation. National standards and guidelines in areas such as environment and labor laws and federal revenue sharing programs are at the heart of sub-national government infrastructure and social programs especially in Mexico and Brazil. Many policy sectors continue to be characterized by the a very strong federal presence in formulating policies and programs, controlling funds, establishing performance requirements and coordinating the action of the subnational units. In Brazil and, to a lesser extent, Mexico a promising cooperative dimension appears: creative initiatives at the states and municipalities have been developed with the support of the central government, through technical assistance, funding and even programmatic guidelines.

A tension between federal and subnational governments persists in most policy arenas, a tension that is inherent in federalist systems. But intergovernmental conflict during the recent process of decentralization does not represent a new phenomenon in these three countries. Federalist systems can be conceived as political systems designed to address inherent tensions in large, regionally diverse countries (Eaton, 2004; Montero, 2004). Today, however, the size of the implementation systems, as in health and education, with well-developed interests among the constituencies in these systems, implies that any system-wide change will be difficult. Furthermore, fiscal constraints, especially in Brazil and Mexico but also true in the USA, mean that not all demands for financial resources can be met, further complicating the potential effectiveness of decentralized delivery systems. Even though the higher level of federal-subnational transfers and federal budget constraints found in Brazil and Mexico, help explain conflictual relations, the USA case clearly indicates that well developed subnational revenue systems will not resolve inherent tensions of fiscal federalism and tax base disparities.

Recent decentralization in each of the three countries has produced numerous examples of new or reformed policies and programs that have led to greater cooperation between federal agencies and subnational units. Proper program design and adequate administrative capacity can produce cooperation. However, the various initiatives for vertical cooperation – whether originated at the federal government level or at the subnational - presuppose sufficient discretion in subnational government to act autonomously. Otherwise, effective collaboration, as distinct from a mere subordination of municipalities and states to federal programs, will not emerge. Given that a certain level of autonomy is required, the role of leadership becomes critical. Without effective leadership cooperative ventures are likely not to emerge. State governments play a significantly different role across the three countries. In Mexico, where the federal government has not encouraged decentralization

within states, only a few states have pursued municipalization of education. In Brazil, through both constitutional provisions and specified federal policy, municipalities have substantial independence from state government.

The record to date of vertical collaboration in the three countries in social policy is encouraging but the critical dependence on local capacity almost assures that the potential benefits will not be realized in all local governments. Due to these disparities and the critical role of national standards, the federal governments will continue to play a critical role in social policy in the three countries. Furthermore, given the vast array of interests in the large social policy systems and with increasingly important technical dimensions, a strong federal presence, both in the executive and legislative branches, is to be recommended. But ensuring the correct balance between national and subnational authority and responsibilities will continue to be a challenge, one that will best be met by an elastic and evolving federalist architecture.

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