

AmericasBarometer Insights: 2010 (No. 31)\*

# Who Should Manage Public Funds in Latin America?<sup>1</sup>

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Academics debate the mixed effects, both normative and behavioral, of fiscal decentralization. Widely known as *the devolution of taxing and spending authority*, fiscal decentralization is expected to economically and politically empower intermediate and local levels of government. Indeed, advocates argue that fiscal decentralization increases economic and political efficiency as a result of the improved match between specific local needs and government outputs (Tiebout 1956, Weingast 1995, Oates 1999). However, detractors warn that fiscal decentralization can lead to inefficiently high tax and regulation burdens as well as increased demands for intergovernmental transfers of scarce resources (Keen 1998, Treisman 2006).

But who does the average citizen believe should administer public monies? Public opinion on fiscal decentralization has been largely absent in the scholarly literature on federalism and

<sup>1</sup> Prior issues in the Insights Series can be found at: <http://www.vanderbilt.edu/lapop/studiesandpublications>. The data on which they are based can be found at <http://www.vanderbilt.edu/lapop/datasets>

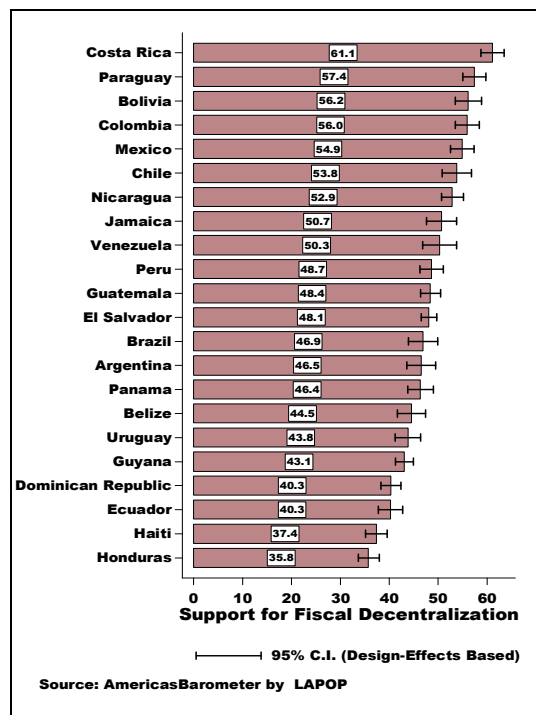
\* The Insights Series is co-edited by Professors Mitchell A. Seligson and Elizabeth Zechmeister with administrative, technical, and intellectual support from the LAPOP group at Vanderbilt.

decentralization (Montero and Samuels 2004). This new paper in the *AmericasBarometer Insight Series* attempts to add citizens' views of this state reform to the fiscal decentralization puzzle.

For this purpose, we query the 2008 database provided by the AmericasBarometer survey carried out by the Latin American Public Opinion Project (LAPOP) in 24 nations in the Western hemisphere.<sup>2</sup> In this survey 33,529 respondents answered the following question:<sup>3</sup>

**SGL1.** And taking into account the available economic resources in the country, who should manage more money? [Read options]: (1) Much more the central government; (2) Somewhat more the central government; (3) The same amount the central government and the municipality; (4) Somewhat more the municipality; or (5) Much more the municipality.

**Figure 1.** Average Support for Fiscal Decentralization in Latin America and the Caribbean, 2008



<sup>2</sup> Funding for the 2008 round mainly came from the United States Agency for International Development (USAID). Important sources of support were also the Inter-American Development Bank (IADB), the United Nations Development Program (UNDP), the Center for the Americas (CFA), and Vanderbilt University.

<sup>3</sup> The non-response rate for this question was 9.47 percent.

Figure 1 shows national averages for 22 countries in the sample.<sup>4</sup> The measure of the degree of support for fiscal decentralization was recoded onto a new scale, where “0” means much more to the central government (recentralization) and “100” means much more to the municipality (decentralization). The position of Latin American citizens in the recentralization - decentralization continuum averages 48.37 points on this scale, indicating support for a quasi-egalitarian distribution of economic resources between central governments and municipalities. Figure 1 also shows, however, significant variation among countries. At one extreme, citizens of Costa Rica, Paraguay and Bolivia manifest the highest degree of support for fiscal decentralization, with levels of 61.1, 57.4 and 56.2 points respectively. At the other extreme, citizens of Ecuador, Haiti and Honduras express the highest degree of support for recentralization, with levels of 40.3, 37.4 and 35.8 points respectively.

## Predicting Support for Fiscal Decentralization

What explains variation in citizen support for fiscal decentralization? Historical/contextual factors at the country-level may cause some of the variation across nations. However, we find that only 3.87 percent of total variation can be explained at the country-level, implying that most of the total variation (the remaining 96.13 percent) is to be explained at the individual-level. Hence, in this paper we concentrate on the variance that is explained by individual-level (level-I) factors.<sup>5</sup>

Among the level-I factors, we consider socio-economic and demographic characteristics included in the AmericasBarometer survey: education, gender, age, wealth and the area of residence. To assess the influence of these factors on citizen support for fiscal decentralization, we fit a multivariate statistical model estimated through ordinary-least-squares

<sup>4</sup> This question was not asked either in Canada or the U.S.

<sup>5</sup> Moreover, we found no statistically significant relationship between a series of level-2 variables, such as level of fiscal decentralization, per capita GDP, the Human Development Index, GINI coefficient, level of Democracy, etc.; and citizen support for fiscal decentralization.

regression.<sup>6</sup> Figure 2 displays the results of this analysis.

**Figure 2.** Socio-economic and Demographic Determinants of Support for Fiscal Decentralization in Latin America and the Caribbean, 2008

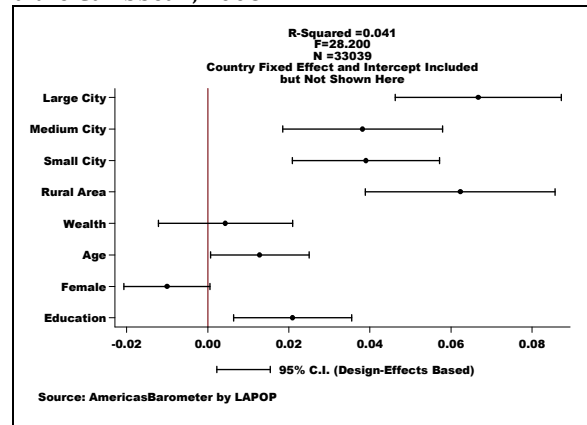


Figure 2 shows the effects of socio-economic and demographic characteristics on the degree of citizen support for fiscal decentralization in the region. Sex and wealth are not statistically relevant in the model. Statistical significance is graphically represented by a confidence interval that does not overlap the vertical “0” line (at .05 or better). When the dot, which represents the predicted impact of that variable, falls to the right of the vertical “0” line, it implies a positive relationship, whereas if it falls to the left, it indicates a negative contribution.

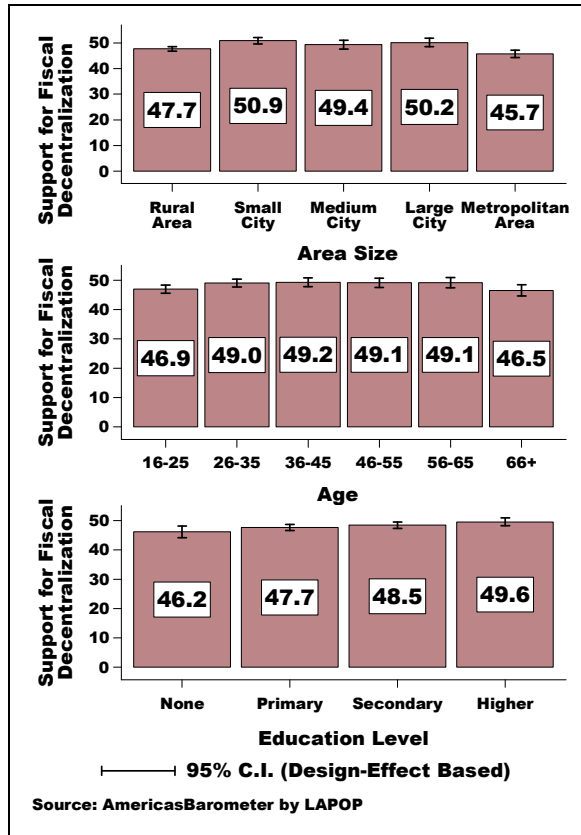
In this model, the individual’s years of completed education, age, and the geographical area of residence are statistically significant contributors. Holding constant all other variables, more educated individuals in Latin America and the Caribbean show a higher level of support for fiscal decentralization. Additionally, as citizens grow older, support for fiscal decentralization increases. People living in rural areas, small, medium and large cities show higher support for fiscal decentralization than individuals residing in metropolitan areas.

The relationships between education level, age, and geographical area of residence on one hand, and

<sup>6</sup> All statistical analyses in this paper were conducted using STATA v10 and are adjusted to consider the effects of the complex sample design.

citizen support for fiscal decentralization on the other are shown in Figure 3, which shows average values for the sample.<sup>7</sup>

**Figure 3.**  
Education, Age, and Area Size, and Support for Fiscal Decentralization in Latin America and the Caribbean, 2008

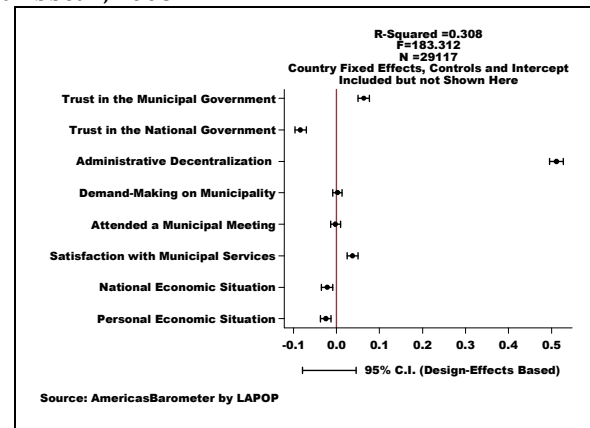


The impact of some socio-economic and demographic variables on citizen support for fiscal decentralization is statistically significant and substantively robust, as shown in both Figures 2 and 3. Theoretically, however, there ought to be several other factors that drive individuals to support either decentralization or recentralization of the available public funds. In particular, we should expect that evaluations of and attitudes toward municipal and federal government affect opinions on decentralization.

<sup>7</sup> It is important to note that the variables “Age” and “Education Level” are grouped into categories for the purpose of illustration. These variables were inserted as continuous in the multivariate regression.

In order to assess some of these factors, we added several public opinion variables to our analysis. Results from this new model are depicted in Figure 4. Note that even though we included all the socio-economic and demographic variables and controlled for fixed effects, we display only the political evaluation variables in the Figure below (see the Appendix for the complete set of statistics).

**Figure 4.**  
An Analysis of the Determinants of Average Support for Fiscal Decentralization in Latin America and the Caribbean, 2008



The results above indicate that there are numerous individual attitudinal and other factors (in addition to socio-economic and demographic variables) that affect citizen support for fiscal decentralization. First, as perception of their personal economic situations improves, individuals seem to express higher support for fiscal decentralization. The same can be said about perception of the national economic situation. In general terms, individuals who see their micro and macroeconomic situation in a better light tend to believe that the national government should manage available public funds instead of the municipality, *ceteris paribus*. This is not case for individuals who are satisfied with the services provided by their municipalities. As satisfaction with municipal services increases, support for fiscal decentralization increases as well.

The strongest and most substantive relationship we find is the link between fiscal and administrative decentralization. Results from the multivariate model show that citizens who support administrative decentralization very much agree with the fact that municipalities should manage more public funds

than national governments. This finding suggests that citizens who favor a decentralizing policy also lean toward integrating the fiscal and administrative components of this state reform.

Two other factors that show opposing effects on support for fiscal decentralization are trust in the national government and trust in the municipal government. While the former negatively correlates with support for fiscal decentralization, the latter shows a positive effect. This finding suggests that trust may be a crucial factor when politicians seek support for devolution policies. But how can trust be increased? This question will be studied in a future *Insight Series*, in which we investigate the levels of trust in municipal governments.

## Policy Implications

The empirical evidence presented in this paper suggests that in general terms, Latin American citizens believe that authority over public funds should be almost equally distributed between national governments and municipalities.<sup>8</sup> However, a disaggregation of citizen preferences in demographic groups shows that individuals residing in rural areas and smaller cities favor fiscal decentralization more so than their metropolitan counterparts. This also seems to be the case for more educated and for older individuals, who think that municipalities should receive more money than the national government.

Among citizens who favor fiscal decentralization, there is also a strong feeling that municipal governments should be given more administrative responsibilities as well. This important message to policy makers seems to indicate that administrative decentralization without the provision of fiscal funds (or vice versa), may not only be linked to inefficient public administration but also goes against the public will. Of course, in this short study we are unable to untangle how this public will is formed. In other words, we are unsure if this is a situation in which the public will "leads" government or if the public links fiscal and administrative decentralization

because they have been packaged by political elites. Thus, a new research question arises for future studies: Does the average citizen really know the difference between fiscal and administrative decentralization or does the average citizen just believe that they "go together"?

Finally, support for fiscal decentralization seems to be greater in contexts of poor evaluations of national and personal economic situations. Individuals who perceive that their own economic situation or the national economic situation is in good shape tend to favor recentralization of public funds. This may suggest an "if it ain't broke, don't fix it" mentality, where good economic performance in particular at the national level leads individuals to prefer that the national government control funds.

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<sup>8</sup> After drawing a histogram of the frequency distribution, we find that the data does cluster in the middle of a normal curve; hence, it is unlikely that the mean value at the mean point is the result of polarization.

**Appendix:**

**Results from the multivariate model<sup>9</sup>**

**Dependent Variable: Support for Fiscal Decentralization**

Variable	Model I		Model II	
	Coefficient	(t)	Coefficient	(t)
Perception of Personal Economic Situation			-0.025*	(-3.90)
Perception of National Economic Situation			-0.022*	(-3.28)
Satisfaction with Local Government Services			0.037*	(5.88)
Attended a Municipal Meeting			-0.002	(-0.34)
Demand-Making on Municipal Government			0.002	(0.40)
Administrative Decentralization			0.511*	(62.70)
Trust in the National Government			-0.084*	(-12.44)
Trust in the Municipal Government			0.064*	(9.54)
Education	0.021*	(2.83)	0.006	(0.87)
Female	-0.010	(-1.86)	-0.002	(-0.31)
Age	0.013*	(2.08)	0.003	(0.50)
Wealth	0.004	(0.52)	0.001	(0.07)
Rural Area	0.062*	(5.22)	0.049*	(5.03)
Small City	0.039*	(4.22)	0.029*	(3.78)
Medium City	0.038*	(3.80)	0.034*	(4.22)
Large City	0.067*	(6.39)	0.045*	(5.44)
Constant	-0.017*	(-1.97)	-0.010	(-1.41)
R-Squared	0.041		0.308	
Number of Obs.	33039		29117	

\* p<0.05

<sup>9</sup> Fixed effects (country dummies) included but not shown here