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## Conditional Transfers to Promote Local Government Participation in Mexico

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*Abstract:* Mexico is a very centralized country mainly as a result of the involvement of the federal government (FG) in functions that would be more efficiently provided by subnational governments (SG). The concentration of activities in the FG is the result of two institutional features: the unclear legal assignment of expenditure functions across levels of government, and the assignment of sources of revenue that concentrates a larger share of revenues in hands of the FG. In the presence of multiple uses of federal transfers, and in the absence of information on the costs of providing SG services, the FG has been reasonably reluctant to decentralize more functions. As long as the FG remains in control of most of government revenues, it is important to ensure that the benefits from decentralization also accrue to it. The transfer of functions should avoid SG neglect of those functions that generate benefits to the rest of the country and keep control over the size of transfers. One instrument that can achieve both objectives is a widespread use of conditional grants.

*Resumen:* Las decisiones de la administración pública mexicana están relativamente centralizadas a causa de la participación del gobierno federal (GF) en funciones que proveerían más eficientemente los gobiernos locales (GL); esta situación se ha generado ante la poco clara asignación de funciones entre niveles de gobierno y la concentración de fuentes de ingreso en el ámbito federal. Al existir múltiples usos de las transferencias federales, y poca información sobre los costos de realizar funciones locales, es razonable que el GF se muestre renuente a descentralizar funciones, aunque reconoce la ventaja informativa que tienen los GL. Mientras el GF mantenga el control

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de las fuentes de ingreso, es importante garantizar que éste participe de los beneficios de la descentralización, por lo que la transferencia de funciones debe evitar que los GL descuiden funciones que generan beneficios extensibles a otras comunidades y que eviten que el costo para el GF sea creciente. Un instrumento para alcanzar ambos objetivos son las transferencias condicionadas o etiquetadas.

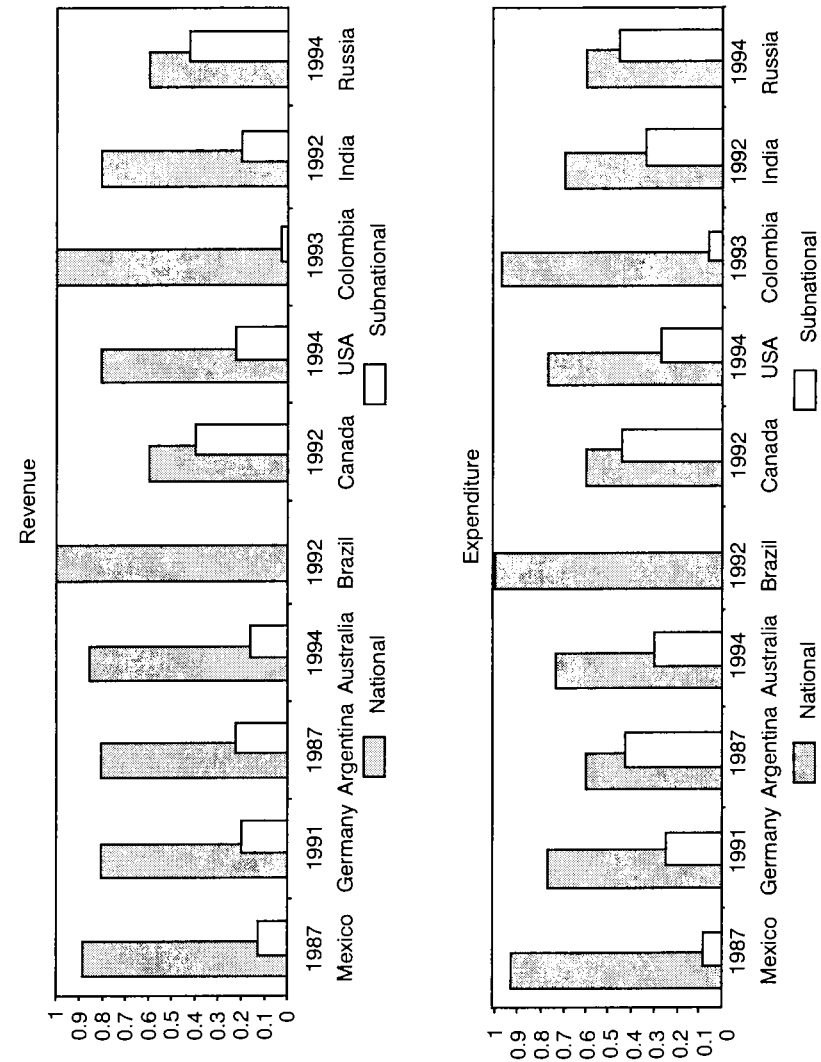
### 1. Introduction

By many standards, Mexico is a very centralized country. Figure 1 shows that, when compared to other federal countries (including developing countries), subnational governments (SGs) are in charge of a smaller fraction of government expenditure.<sup>1</sup> This is mainly a result of the involvement of the FG in functions that would be more efficiently provided by SGs, as will be shown below. The concentration of activities at the federal level is the result of two features of the Mexican institutional setting. First is an unclear legal assignment of expenditure functions across levels of government, which allows the simultaneous provision of services by governments of different levels. Second is the assignment of sources of revenue that concentrates a larger share of the collected revenue in hands of the FG (Figure 2), which allows the government at this level to intervene in local functions that would be more efficiently provided by SGs.

If this is an inefficient outcome, why is it that the FG does not transfer them to SGs, which could provide better service, probably at a cheaper cost? Particularly since decentralization arguably leads to a better outcome, the federal constituency may demand more of it. Even the president recognizes the advantage of SGs for some functions as he has promised to transfer them to SGs. But up to this day, and despite some progress in education, regional development and health, the demand by SGs and a large fraction of the media for further decentralization continues. The problem being that a change in control over an expenditure function potentially represents a different allocation of public funds, and decisions taken by SGs may not satisfy FG preferences.

<sup>1</sup> In this paper, unless otherwise specified, the term *subnational governments* (SGs) represents all the governments that are not at the federal level, which is the highest level in the country. The government at this level is called the *federal government* (FG).

Figure 1. International Comparison of Centralization



Source: IMF, Government Financial Statistics.

In particular, SGs have different priorities than the FG in their expenditure patterns. First, they would prefer to increase spending on functions that may create externalities and spend less on those that generate national benefits. Many local functions have a distributive effect because of the impact they have on poverty reduction, and income distribution is a federal concern (according to Musgrave's classic division). As SGs have to compete for the attraction of richer tax bases, they tend to decrease expenditure on local services to the poor and spend in activities that are complementary to capital. The positive benefits that extend to the rest of the country associated with a better-educated and healthier population are other factors that reduce local expenditure in poverty reduction. The latter effect is particularly important in poorer localities where the more productive workers tend to move to wealthier communities. It is mainly in activities with an impact on living standards that we see the intermission of the FG in local functions. Second, when it comes to intergovernmental transfers SGs want to attract as large a share of federally collected revenue as they can while the FG would like it to be just enough. But the FG does not have the information about SG's costs of providing their functions.

In Mexico until 1997, most federal transfers were of the block grant type, that is, with no strings attached, which proceeded from a tax-sharing agreement. The SGs can use them for the functions the FG wants them to cover; for decreasing local tax collections, or for changing the expenditure pattern, for example, reducing spending in national goods and services, such as income distribution. The SGs benefit from this information asymmetry, and they want to preserve their superior position. For example, Mexican SGs do not provide information on their expenditures by function, and they demand more transfers even when there is evidence that they have used part of their proceeds from the tax-sharing agreement to decrease their own tax collections.

In the presence of multiple uses of federal transfers, and in the absence of information on the costs of providing SG services, it has been difficult to determine an adequate level of federal transfers to the SGs. The tax-sharing grant is divided among the SGs using an objective formula that can be changed only with the agreement of SGs and the FG. But in negotiating the level of the tax-sharing fund, budget deficits have been implicitly used to determine whether the transfers meet SG needs. The FG reacted to the appearance of persistent deficits by most states by increasing the size of the transfer in 1990, 1994, and 1996,

and also by negotiating a change in the formula to include population, along with a timetable to gradually increase the weight of this factor. The population factor was probably established to link the transfer amount to SG costs. On their side, SGs have presented their deficits as evidence of the insufficiency of the existing transfers, and have requested an increase in the transfers instead of asking for a change in the formula to cover their costs. (Even poor states — that, for other purposes, complain that rich ones ought to compensate them for an unequal distribution of federal investment — ask for more money rather than for a reformulating.) Contrary to information about expenditure by function, when it comes to budget and debt information, SGs are actually eager to show their information.<sup>2</sup> Summarizing, the decentralization of functions to SGs could lead to less expenditure on those goods and services whose benefits extend out of their jurisdictions, and, at the same time, the FG could lose fiscal control over expenditures by extending increased transfers.

On the other hand, the FG knows that the SGs have better information on the needs and preferences of local constituencies, which is necessary for an efficient allocation of local goods and services. In fact, the FG uses this information for its public investment decisions. For example, *Solidaridad* made allocations of federal money based on requests of local governments and communities, and planned in conjunction with state and municipal governments (Programa Nacional de Solidaridad, 1994).<sup>3</sup> Other federal agencies follow this type of planning in their investment decisions. The FG, by decentralizing functions in which local information is important, could attain a more efficient allocation of goods and services, as it would: 1) save resources in information-gathering activities; 2) assign responsibilities in case of service deficiency and insufficiency (which is particularly important in the relatively new context of conflicting political parties at different levels of government); and 3) satisfy the preferences of the constituency instead of those of federal agents.

As long as the FG remains in control of most of government revenues, it is important to ensure that the benefits from decentral-

<sup>2</sup> This was the case when the FG proposed to change Article 9 of the *Ley de Coordinación Fiscal*, which requires SGs to provide SG debt information.

<sup>3</sup> *Solidaridad* is the name of the federal program for poverty reduction and regional development that operated between 1989 and 1994. Previous and existing federal programs use SG information in similar ways (SPP, 1988). Starting in 1996, half of the funds for regional development are provided as block grants.

ization also accrue to it. Then the transfer of functions should avoid SG neglect of those functions that generate benefits to the rest of the country and keep control over the size of transfers. One instrument that can achieve these two objectives is a widespread use of conditional grants, *i.e.*, transfers that impose some condition on the recipient government. This type of transfer, besides allowing the FG to guarantee adequate SG spending on particular functions, provides tools for the control of SG expenditures. Conditional grants require information on the expenditures they are conditioned on, which can be used for cost estimation and yardstick competition or other cost reducing incentive schemes. By separating expenditures, the FG can limit possible revenue insufficiencies to particular functions. These transfers could be matching grants that, by requiring local contributions, can increase local tax collection effort, addressing the problem of dwindling local tax collections through the tax-sharing agreement (Gramlich, 1977). Conditional grants could also be used to provide incentives for SGs to decrease provision costs, *e.g.* increasing the matching rate to lower provision cost governments.

This paper starts by reviewing the current fiscal assignment of expenditure and revenue functions in Mexico. Section 2, which concentrates on expenditure functions, shows that Mexico's legal design allows SGs to take most responsibilities but the assignment is unclear, which leaves the door open for the FG to take part in functions that would be more efficiently provided by local governments. It also shows that there is a bias in the type of information that SGs provide: a lack of information on expenditure by function at the state and municipal levels and willingness to show their persistent deficits and their increasing indebtedness. Section 3 describes the division of revenue sources and the system of intergovernmental transfers.<sup>4</sup> The SGs have access to many tax bases of small size which, when added together, generate poor collections, while the FG has the broader and richer tax bases. The FG compensates the governments at the lower levels mainly through the federal block grants program.<sup>4</sup> The total size of the transfers increased to compensate states that lost out when the sharing formula was changed. The formula started with fixed coefficients; then the states shares increased according to their economic activity; then their shares increased with the federal taxes they collected;

<sup>4</sup> These grants constitute the Sistema de Coordinación Fiscal, a tax-sharing agreement between the FG and SGs, and are called *participaciones*.

and recently the formula has incorporated population. However, the persistence of state deficits is likely to create further changes.

Based on the information provided about Mexican fiscal federalism, section 4 evaluates the problem of centralization as one of differences in the motivations of governments at different levels, in the absence of instruments to align their preferences. The level of government that controls revenues will keep control of expenditure functions, in which preferences are different, even if that is inefficient for the country as a whole. In Mexico, the FG has been able to interfere in SG activities because of the legal void and because it has more revenues. For decentralization to proceed, it is important that local governments satisfy national priorities. Therefore, state and municipal governments have to devote enough resources to national services, and provide good information on their expenditure levels, so that the FG is able to determine the adequacy of its transfers to meet SG functions. Conditional grants would achieve this objective, as is argued in section 5.

## 2. Mexican Fiscal Expenditure Assignment

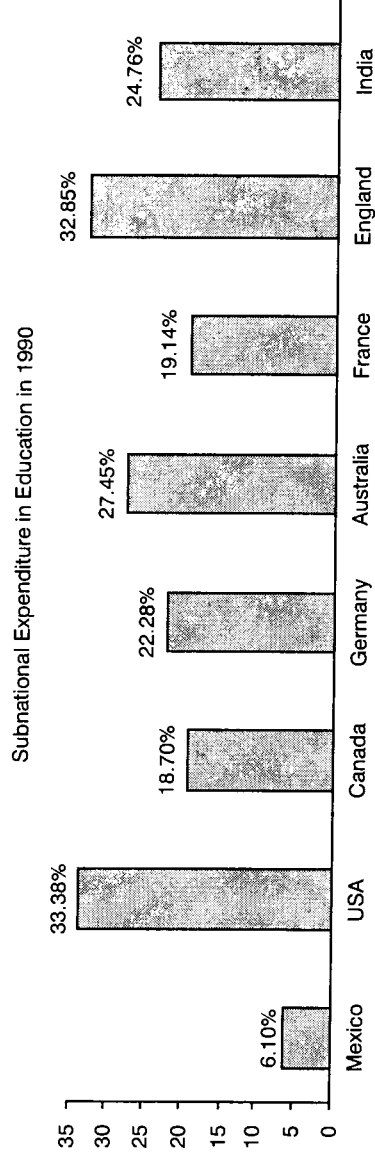
In Mexico, the proportion of total government expenditures that state and local governments constitute is lower than in other federal countries (Figure 1).<sup>5</sup> Mexico also is a very centralized federation if judged by the involvement of the national government in the delivery of services like health and education (Figures 2a and 2b). The degree of income and development neither determines nor is associated with this condition, as can be seen by looking at Argentina, Brazil, and India.<sup>6</sup>

Since this comparison could also be interpreted as showing few efficiency gains from decentralization, to have a closer inspection of the degree of centralization, and to see whether Mexico can gain from decentralization, we first determine which functions should be lower-level responsibilities, and then compare those with the actual assignment in Mexico.

<sup>5</sup> Following Inman (1988), military expenditures are excluded from these numbers. This is a federal expenditure that varies with factors unrelated to the division of functions among levels of government.

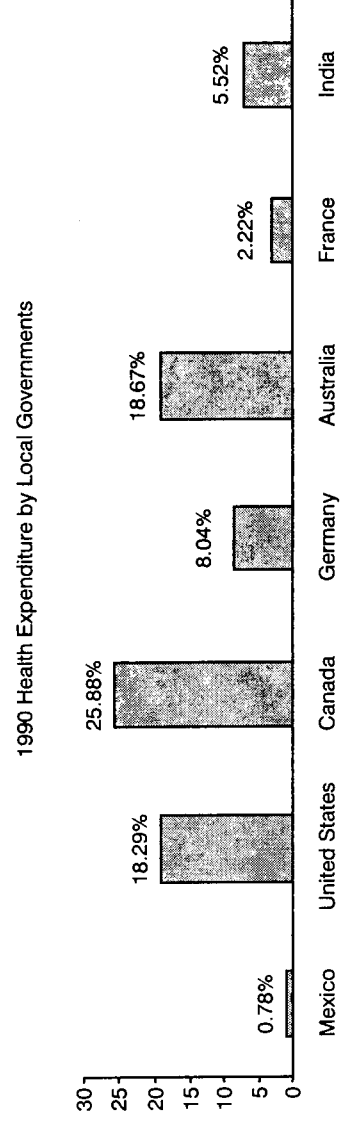
<sup>6</sup> In Mexico, local governments have more expenditure decision power than under unitary governments. For example, in Chile the central government is in charge of 91.62% of total expenditures, while in Spain it controls over 88%. The latter case is particularly striking, because the degree of political independence of the provincial governments is not matched by their economic responsibilities.

**Figure 2a. Comparison of Local Expenditures in Education among Selected Countries**



Source: IMF Government Financial Statistics.

**Figure 2b. Comparison of Local Expenditures in Health among Selected Countries**



Source: IMF and INEGI.

## 2.1. Theoretical Assignment

This subsection presents those characteristics of public services that vary in their geographical range. Mexico has three layers of government: federal, state, and municipal; this subsection matches the features of the analyzed services to their appropriate levels. This analysis takes the existing local jurisdictions as an institutional constraint. This analysis therefore ignores many interesting problems dealing with jurisdictional design, either in the areas that governments cover or in their number of governments (Shah, 1994, chapter 1). However this neglect is appropriate to the Mexican setting, where a change of local jurisdictions seems less likely than a reform of the current fiscal arrangement among the existing ones.<sup>7</sup>

As the primary difference among levels of government is their geographical range, the literature has looked at the geographical characteristics of government functions. This type of analysis follows Musgrave's classification (according to the incentives each level has for efficient provision) which assigns the allocation function to different levels depending on the spatial characteristics of the government goods. Four of them are presented in Table 1. These are: 1) the geographical range where the service is a public good; 2) the externalities a function generates to other localities; 3) whether or not there are economies of scale or scope in the provision of the function; and 4) the satisfaction of the preferences of the affected set of consumers. These features are explained in a more detailed way in Shah (1994). The expenditure functions (services) are taken from those in Shah (1990 and 1994). Another factor to be considered in section 4 is the abilities of the different government levels to process information.

Table 1 assigns each allocation function to a level of government according to the previous criteria. That is, each function, according to its characteristics, is assigned to the level most appropriate to take over that responsibility. For weighing these criteria in the final assignment, the table uses the concept of *subsidiarity*. This principle assigns the service to that authority for which externalities are internalized, when it is possible to separate the production from the

<sup>7</sup> Unless otherwise specified, the criteria for the division of functions come from the discussions over fiscal federalism contained in Oates (1972), Quigley (1993), and Shah (1990 and 1994).

provision of the service (see Inman and Rubinfeld, 1993).<sup>8</sup> The optimal allocation assignment appears in the last column, while the previous column shows the authority that would regulate the activity (which is the level where the good is public).<sup>9</sup>

Since some of these functions represent several types of services, the criteria can yield prescriptions for more than one level of government. Some services may belong to the federal level and others to the state level. Examples of these are education, with the division between professional and basic education, and health, with the distinction between preventive care and specialized treatments. Due to the lack of space, a more detailed division is not in this paper.<sup>10</sup>

## 2.2. Actual Assignment

The existent Mexican legal assignment is clear and coincides with the theoretical framework on the assignment of expenditure functions and tax bases (analyzed below) to the federal and municipal levels. However it is vague about what belongs to the state level, and such a wide scope in the assignment actually works to limit the performance of SGs. First, the federal level interferes in functions where its responsibility is not explicitly mentioned. Second, SGs barely participate in functions provided together with the FG, as the national congress assigns most of the services to the wealthier federal level (Figure 2). In the end, the states provide most of their services with other levels, playing a secondary role in those in which the FG takes part, and frequently interfering in the functions and income sources of the municipalities.

Besides thwarting state participation in expenditure functions, this lack of clarity is problematic because it leaves the final assignment subject to the interpretation of the authority distributing revenues or in charge of solving conflicts among levels. Up to now this authority

<sup>8</sup> In those cases in which the separation is impossible, the table uses the criterion coming from the decentralization theorem of Oates (1972) which assigns the service to the lowest level for which there are no externalities, for which the benefits of the good are exhausted, and which can produce the service without incurring higher costs.

<sup>9</sup> Provided the existent fiscal gap regulation could be implemented through pecuniary incentives, so that the regulatory authority should be involved in the financing of the function.

<sup>10</sup> A second reason for a correspondence between functions and levels is that states and municipalities vary considerably in size, population, and income. This problem of variation in financial capacity is tackled in Gamboa (1997, chapter III) by offering a menu for local governments to select among appropriate grants.

**Table 1. Division of Functions\***

<i>Public Service</i>	<i>Type of Public Good</i>	<i>Externalities</i>	<i>Economies of Scale</i>	<i>Economies of Scope</i>	<i>Preferred Good</i>	<i>Regulating Authority</i>	<i>Providing Authority</i>
National Defense	F	F	F	F	F	F	F
International Trade	F	F	F	F	F	F	F
International Relations	F	F	F	F	F	F	F
Monetary Policy	F	F	F	F	F	F	F
Interstate Trade	F	F	F	F	F	F	F
Natural Resources	F	F	F	F	F	F	F
Industrial Policy	F	F	F	F	F	F	F
National Statistics	F	F	F	F	F	F	F
Post Service	F	M	F	F	F	F	F
Bord. and Fed. Police	F	F	F	F	F	F	F
Special Police	F, E	F	F, E	F, E	E	F, E	F, E
Income Distribution	F	F	M	M	F	F	F
Regional Develop.	F	F	M	F	E, M	F	E, M
Airlines and Trains	F, E	F	F	F	E	F	F, E
Ecology	F, E, M	F, E, M	M	F, E	M	F, E	F, E, M
National Parks	F	F, E	E	F, E	F, E	F, E	F, E
Ind. and Agricult.	F, E	F, E	F	F, E	E	F	F, E, M
Education	M	F, E	F	F, E, M	M	F, E	F, E, M
Health	M	F, E	F, M	F, E, M	M	F, E	F, E, M
Water Use	M	F	M	F	F	F	E, M
Housing	M	E	E	E, M	E	F, E	E, M
Hospitals	M	E	F, E	E	E	F, E	E, M
Culture	M	E	E	E	E	E, M	E, M
Water Supply	M	M	E	E	M	E, M	E, M
Sewerage	M	M	E	E	M	E, M	E, M
Local Transit	M	E, M	E, M	E, M	M	M	M
Public Libraries	M	E, M	E, M	E, M	M	M	E, M
Firemen	M	M	M	M	M	M	M
Local Police	M	M	M	M	M	M	M
Parks	M	M	M	M	M	M	M
Street Repair	M	M	M	M	M	M	M
Waste Disposal	M	M	M	M	M	M	M
Street Lighting	M	M	M	M	M	M	M
Air Pollution	M	M	M	M	M	M	M
Slaughterhouses	M	M	M	M	M	M	M
Markets	M	M	M	M	M	M	M
Cemeteries	M	M	M	M	M	M	M
Highways	M	M	M	M	M	M	M
Interstate	M	F	E	F, E	F	F	F, E
State	M	E	E	E	E	E	E

\* An F means that, according to the criteria that appears at the top of the columns, a function belongs to the federal level, an E to the state and an M to the municipal one.

has been the national congress (which is perceived as following orders from the federal executive),<sup>11</sup> and with the recent reform of the judiciary, the Supreme Court could potentially decide the fiscal arrangement based on poorly determined Constitutional boundaries. Table 2 illustrates the relative importance of the federal level under the present arrangement. The large participation of the federal level in infrastructure expenditures also shows the federal level intervening in state responsibilities.<sup>12</sup>

The problem is even worse for municipalities, where the FG is not the only one to interfere with their activities. The Constitution gives them legal status by assigning them functions, but gives the state legislature the responsibility to decide when the SG has to help municipal governments. This prescription in practice amounts to taking away from many municipalities important functions like water provision, street maintenance, road building, etc. As will be seen below, the Constitution stresses this dependency on the revenue side, practically turning municipalities into administrative departments of SGs.

Table 3 compares the de facto Mexican expenditure assignment with the theoretical assignment of subsection 2.1. For the federal level, there is information on expenditures by function. However this is not the case for the state and municipal levels; the services undertaken by these levels come from available information on functions for which these governments charge fees.<sup>13</sup> This table shows that municipalities only perform their prescribed functions. On the other hand, SGs take the functions that the fiscal federalism literature recommends, but the states also participate in areas that Table 1 assigns to the municipal level. This could be a consequence of the small size of many municipalities, in terms of population, income level, or geography. Poor municipalities require state support to provide services, while others

<sup>11</sup> *The Economist* in its 10/28/95 issue calls it a "rubber-stamp congress".

<sup>12</sup> Investment expenditures by subnational governments in centralized and developed countries, as France, is 68%, the U.K., 55%, or in federalist and developing, as India, is 60%, Brazil, 65%, and Argentina, 49%. On the other hand, Mexico is ahead of centralist developing countries like Chile where it is 10%.

<sup>13</sup> This information is taken from the 1993 revenue laws of the states and the 1994 revenue laws of municipalities. It is based on the revenue concepts extracted by INDETEC (1994). The functions of the federal government are taken from the Sexto Informe de Gobierno de Carlos Salinas de Gortari and the Informe sobre el Programa Nacional de Solidaridad.

It is worth mentioning that the existence of a fee does not show the degree of participation of the level in the function. On the other hand, it is possible for a government to provide a service for no fee.

**Table 2. Comparison of Expenditures of Government Levels**

Type	Federal Government*			State Governments			Municipal Governments		
	A Billion Pesos	(type/A) % of Expense	(A/A + B + C) Fraction by Level	B Billion Pesos	(type/B) % of Expenses	(B/A + B + C) Fraction by Level	C Billion Pesos	(type/C) % of Expenses	(C/A + B + C) Fraction by Level
Total**	58 381	100%	62%	26 218	100%	28%	9 520	100%	10%
Administrative	33 086	56%	65%	11 918	45%	24%	5 761	61%	11%
Investment***	19 638	34%	66%	7 375	28%	25%	2 621	28%	9%

\*Two factors are taken out from federal expenditure for the comparisons. First, federal expenditure in interest payments is much larger than debt payments made by other levels since it has greater access to credit markets and it performs the stabilization function. The second distinction is that federal transfers to other levels are larger than those provided by any other level.

\*\*Expenditures on interest payments by the federal level and transfers by the three levels are excluded with the purpose of comparing the resource allocation on similar concepts. Therefore other types of expenditures that are not compatible are not presented explicitly but are included in the total.

\*\*\*It comes from Gasto de capital for the federal level, Obras públicas y de fomento for state and municipal levels.  
Source: INEGI.



**Table 3.** Functions Undertaken by Different Levels

<i>Public Service</i>	<i>Regulatory Level</i>	<i>Providing Level</i>	<i>According to Framework</i>
National Defense	F	F	F
International Relations	F	F	F
International Trade	F	F	F
Monetary Policy	F	F	F
Interstate Trade	F	F	F
Natural Resources	F	F, E	F
Industrial Policy	F	F	F
National Statistics	F	F	F
Postal Service	F	F	F
Federal and Border Police	F	F	F
Special Police	F, E	F, E	F, E
Distribution	F	F	F
Regional Development	F	F, E, M	F, E, M
Airlines and Trains	F	F, E	F, E
Ecology	F, E	F, E, M	F, E, M
Industry and Agriculture	F, E	F, E, M	F, E, M
Education	F, E	F, E, M	F, E, M
Health	F	F, E, M	F, E, M
Water Use	F, E	F, E, M	E, M
Housing	F, E	F, E	E, M
Hospitals	F	F	E, M
National Parks	F, E	F, E	F, E
Culture	F, E, M	F, E, M	E, M
Local Trade	F, E, M	F, E, M	M*
City Planning	F, E, M	F, E, M	M
Water Service	F, E, M	F, E, M	E, M
Sewerage	F, E, M	F, E, M	E, M
Transit	E, M	E, M	M
Public Transportation	E, M	E, M	E, M
Libraries	M	M	E, M
Firemen	M	M	M

**Table 3** (continue)

<i>Public Service</i>	<i>Regulatory Level</i>	<i>Providing Level</i>	<i>According to Framework</i>
Local Police	E, M	M	M
Parks	M	M	M
Streets	F, M	F, M	M
Waste Disposal and Cleanig	M	M	M
Public Lighting	E, M	E, M	M
Air Pollution	M	M	M
Cemeteries	E, M	E, M	M
Markets	M	M	M
Slaughterhouses	M	M	M
Highways			
Interstate	F	F, E	F, E
State	F, E	F, E	E

\*Local trade, zoning, streets cleaning and waste disposal only appear in this table as they come from the services on which governments collect charges. These are municipal services as they are publicly private goods.

are so scarcely populated or present such a reduced or abrupt territory such that service provision renders economies of scale.<sup>14</sup>

The most important deviation from the theoretical assignment comes at the federal level: the FG is involved in more activities (Table 3) than in the prescriptive Table 1. This interference in the activities of other levels comes mainly through the National Solidarity Program (the program to combat extreme poverty). The reason is that the services provided by the local levels have a strong impact in people's living standards and, as Musgrave argued, the distributive function should be a federal responsibility.

Solidarity is best known for its financing of local public infrastructure. It selects among projects requested by the community, ideally basing its decision on the success of the project in reducing poverty. Solidarity is one of the FG programs that explicitly considers local

<sup>14</sup> The extreme example is the State of Oaxaca, which divides its 36,275 square miles among 570 municipalities.

community preferences in its expenditure decisions. In fact, part of the financing of the project comes from the community members' unpaid work, which shows the benefit of the investment. Solidarity, as other federal agencies do, coordinates its investment decisions with local governments. However, Solidarity's system hinders local level decision-making. Federal criteria ultimately determine which local projects are carried out. Furthermore, these criteria are far from transparent, which leaves room for discretion in its assignment and does not allow local governments to know the resources at their disposal.

The government that finances the program and the one that provides the services do not have to be the same. The function of the federal level is to distribute resources so that poor communities have access to basic services, while the function of local governments is to provide the services the community values most. The anti-poverty program objectives and resources, as well as those of other federal agencies, should be made explicit through an objective distribution. Being able to predict available funds, municipalities and states would be able to determine the best investments for their communities.

Summarizing, constitutional mandates in principle give broad functions to the states, but it is not clear which functions belong exclusively to this level, and does not separate responsibilities in those functions supplied by several levels. The interpretation of these mandates has been favorable to the federal level. In practice, SGS participate in a reduced way in those functions they perform with the FG. Furthermore, the federal level, mainly through its social development policy, has jurisdiction over a number of functions that in principle belong to the state or municipal levels. This creates an inefficient allocation, as the level closest to the final consumers arguably knows community preferences better, but does not always decide over allocations of local goods. Additionally, with this blurry division of functions, it is not possible to determine responsibilities in case of service deficiency or insufficiency, and community participation in public decisions is therefore hindered.

### 3. Revenue Sources across Levels of Government

On the revenue side, states and municipal governments have few tax bases they can utilize efficiently and at low administrative cost. Accordingly, the federal level exploits the broadest and richest tax

bases of the country. It is therefore necessary for the FG to transfer part of its tax collections to local governments, which makes these governments heavily dependent on these grants and allows the federal government to interfere with local functions.

#### 3.1. Theoretical Division

Bird (1992) argues that the tax bases that are efficient and simple to administer by local governments are few and poor. Local taxation creates several distortions, such as tax exportation and externalities (Inman and Rubinfeld, 1993, explain these concepts). This precludes SGS from imposing the ideal benefit taxation, in which communities face a clear link between service provision and cost.

With high factor mobility, tax externalities could have a sizable impact, as small changes in rates lead factors to reaccommodate affecting other SGS. On the other hand, tax exportation is a major concern for goods produced in few locations around the country, in which case the location of factors would hardly depend on local taxes. Thus there follows the prescription to assign to the federal level the taxation of natural resources and other goods with site-specific locations (because of tax exportation) and that of factors with elastic supply (because of tax externalities).

Additionally, because taxes on people or corporate incomes require information about transactions taking place in several locations within the country, the FG, which has this knowledge, can have a better assessment of this tax base. This is also the case with value-added taxes that require cross-referencing of information from different points in the country. Another consideration that favors the assignment to the federal level is economies of scale in handling this information in a single administrative location.

In addition to these considerations, to the extent that the tax structure reflects distributive and stabilization concerns, which are federal functions according to Musgrave, more tax bases will belong to the federal level. Tanzi (1995) stresses the importance of the federal level in this respect, as the stabilization problem that most developing countries face is at a national rather than regional level. In this case, national coordination is more important than decentralized policies. Macroeconomic stability sometimes requires drastic changes in public finances (which has been the case in Mexico, at least in 1982, 1988 and

1995).<sup>15</sup> The larger the portion controlled by the FG, the more likely this policy is to be successful. In addition to these, local governments often create fiscal problems for the federal level by running deficits they cannot cover (Bomfim and Shah, 1994). All of these considerations have been taken into account in the design of the Mexican revenue structure, which as a result is fairly centralized (Figure 1).

To take advantage of a decentralized provision, it is necessary to design a system that transfers resources from the richer federal tax collections to local governments. However, a transfer system could itself be inefficient. Federal grants should be large enough for local governments to perform their functions; *i.e.*, this source together with local tax collections has to cover their expenditures. To the extent that grants fail to satisfy this objective, they will promote a misuse of public funds, either because resources are wasted or because rich communities enjoy lower tax rates, or because these funds are insufficient to cover local expenses. Besides problems associated with the appropriate amount of transfers, these could impose distortions on local government allocations of public resources.

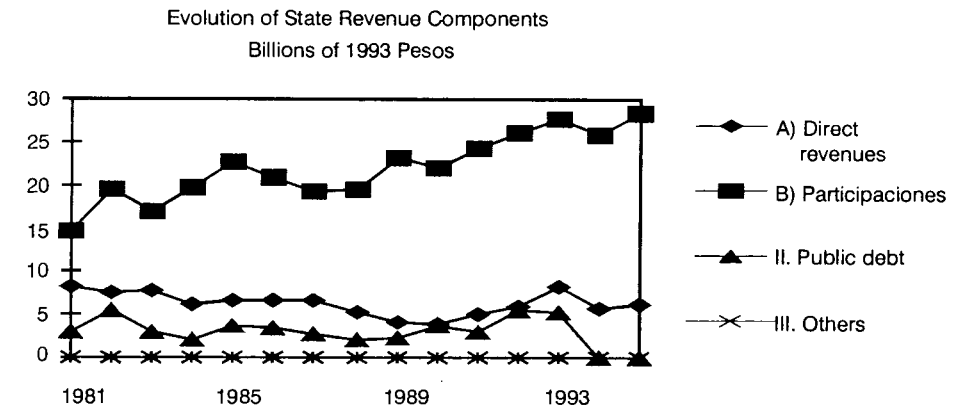
Transfers may also be used as instruments of the FG to achieve national goals. A well-designed distribution formula could eliminate local tax distortions, or provide incentives to internalize externalities, or it might improve income distribution or help to stabilize the economy. For each of these objectives there are several types of transfers. In this paper the focus of attention is to finance those functions in which there is federal government interference because on national concerns, for which transfers have to be conditioned to the performance of those functions.

### 3.2. Mexican Division of Revenue Sources to Levels of Government

In this section a comparison is made between the existing Mexican assignment and the theoretical framework. Table 4 shows the current division of tax bases among levels of government, which for the most part is consistent with the theoretical framework. It assigns the richest and broadest tax bases to the federal level, as can be seen below.

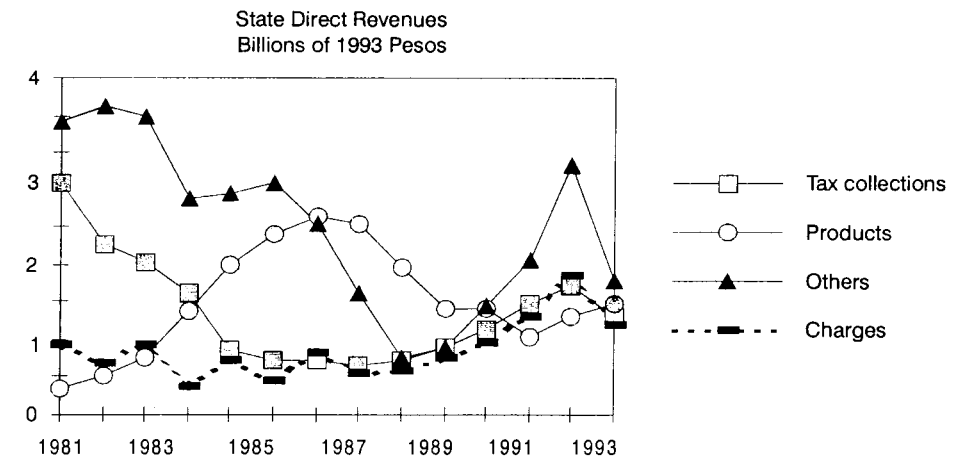
<sup>15</sup> However one has to recognize that the problems were also created, to a large extent, by the federal government.

Figure 3. Composition of State Revenues



Source: Finanzas públicas estatales y municipales, INEGI.

Figure 4. Direct Revenues of the States

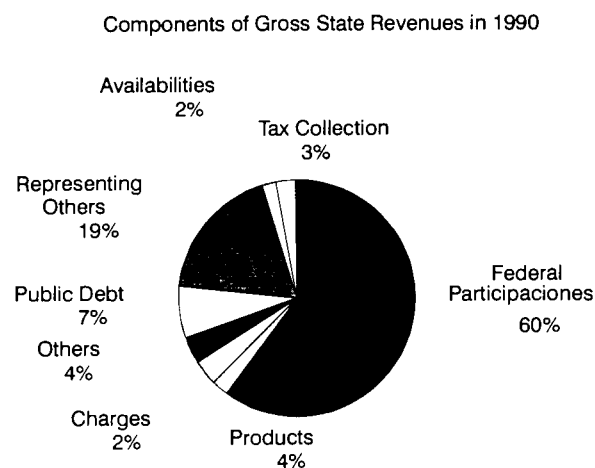


Source: Finanzas públicas estatales y municipales, INEGI.

**Table 4. Division of Tax Bases According to Revenue Laws**

<i>Federal Tax Bases</i>	<i>State Tax Bases</i>	<i>Municipal Tax Bases</i>
Income	Shows and Entertainment	Property
Firms Assets	Lotteries and Allowed Gambling	Patrimonial Transmissions
Special over Production and Services	Motion Pictures	Property Acquisition, Transmission and other Transactions
Value Added	Payrolls	Zoning
Foreign Trade	Wage Income	Empty Yards
Property Acquisition	Professional Services	Residential Developments
Vehicle Possession and Use	Honoraria	Property Improvements
New Cars	Sale of Secondhand Vehicles	Property Establishment
Oil Benefits	Sale of Secondhand Mobile Property	Shows and Entertainment
Accessories	Vehicle Possession and Use	Lotteries and Allowed Gambling
Telephone Services	Commercial or Industrial Activities	Commercial or Industrial, Agricultural and Livestock Activities
Public Services Provided Using Federal Property Goods	Unclassified Outlets	Commercial Activities and Professions without Permanent Location
	Editorial Business	Professions
	Benefit of Construction Materials	Private and Decentralized Education
	Transmission of Property over Goods	Non-Combustion Vehicles
	Property	Sale of Secondhand Vehicles
	Patrimonial Transmissions	Advertisements in the Public Way
	Notary Public Functions	Assistance to Games and Shows
	Public Instruments and Contractual Operations	Public Instruments and Contractual Operations
	Parking Lots	Urban Public Transportation
	Construction Works Supervision	Additional
	Residential Developments and Condominia	Exceptional
	Production Damages	
	Additional	
	Private Education	
	Urban Public Transport	
	Penalties	

Source: Federal, state and municipal revenue laws for 1994 (compilation made by INDEFEC).

**Figure 5.** Composition of State Revenues in 1990

Source: Finanzas públicas estatales y municipales, INEGI.

1) Income, assets and value added taxes are collected by the federal level because of its advantage in information over local levels and the concern for tax externalities.

2) Taxes over services produced with national goods, as oil revenues, and over foreign trade are collected by the federal level, to avoid tax exportation.

3) Special taxes<sup>16</sup> are handled by the federal level, because of the concern for externalities that could emerge from tax competition and because national policies over these goods.

4) Telephone services, property acquisition, vehicle possession and use, and new cars are also assigned to the federal level, but in this case tax exportation and externalities are low. In fact, the federal government has proposed the devolution to the states of the last two, whose proceeds already belong to the states.

The level of state revenues in real terms has been fairly constant for the last 15 years. However, there has been an important change in the revenue components. Figure 3 shows an increase in federal transfers and a decline in direct (state collected) revenues. But not all direct

<sup>16</sup> The most important ones are gasoline, tobacco and alcohol.

revenue components have declined. While most of them show a decrease in real terms during the 1980s, user charges (*derechos*) present a slight increase (Figure 4). In 1990, federal transfers reached 70% of non-debt state revenues, while none of the other sources constituted a significant fraction of the total (Figure 5). Subsection 3.3 looks at the transfer system and shows the importance for SGs that this source acquired in 1980, and it also points out that the fraction of federal transfers to the states has increased continuously since then. As will be argued afterwards, this pattern shows that SGs are expanding their collection of those sources that are less politically costly, and decreasing those which anger their local constituencies, at the expense of federal revenues.

### 3.3. Transfer System

By an agreement between the three levels of government, the federal level shares its tax collections with local levels. The National System of Fiscal Coordination (*Sistema de Coordinación Fiscal*, SCF) took effect in 1980 to expand tax collections and reduce production distortions arising from double taxation. Under this agreement, states exchanged their tax bases over income, production and sales for larger transfers. The SCF attained its objective because total resources available to federal and local governments increased since the beginning of the program by 30% in real terms. Furthermore, although the fraction of federal revenues transferred to state and local governments has increased, federal revenues, as a proportion of total government revenues, has remained almost constant.

A major problem has been that the SCF failed to provide a link between state needs and revenues, extending the *participaciones* (as the tax-sharing transfers are called) according to the share of tax collections each state had in 1979. Although the formula has changed to include population size, it still provides larger transfers to states with richer tax bases.<sup>17</sup> Furthermore, in per capita terms, the transfers increase with state income at a much faster rate than average wages (which is a proxy for public service costs). This system allows SGs with richer tax bases to provide better or more services than poor ones. This distribution scheme helps to preserve regional disparities in the coun-

<sup>17</sup> Table 6 describes the sharing formula.

try, which necessitates further participation of the FG in the provision of distributive goods.

The loss of connection between transfers and costs is problematic, given the importance of this source of revenue to SGs. The FG has an implicit obligation to cover the costs of SGs, but it does not know them. SGs have incentives to overlook possible expenditure-reducing policies, as the federal level mainly pays the cost of raising revenues. The SCF started a process that has benefited the state level, as the share they receive from the federal level revenue collections has steadily increased from 18.45% in 1980 to 22.72% in 1994. Table 5 describes the evolution of the SCF.

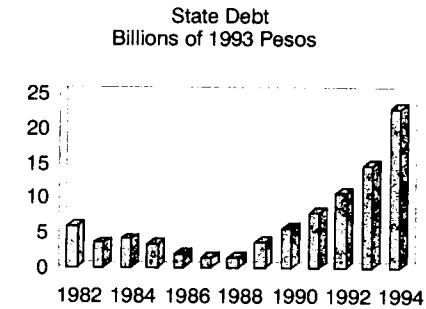
Contrary to what would happen under equalization transfers, where federal grants would show a negative correlation with state fiscal capacity, in Mexico richer states receive larger transfers.<sup>18</sup> However, poor states do not demand a change in this sharing system. Opposition by rich states or uncertainty about the benefits of a new formula does not seem strong enough reasons to explain this behavior. The controversy over the appropriate size of the transfer fund solves this puzzle. At this stage, states are competing for more resources *vis-à-vis* the federal level rather than disputing among themselves. Instead of discussing the objective criteria for dividing the existing tax-sharing fund, the controversy is over the total size of the fund, which as a result has constantly increased for the past 15 years. That is, for the past years, the federal government has been increasing the fraction of transfers at the expense of its own programs.

But still it would seem as if the transfers have not been enough to cope with costs, as states have accumulated debt at an unsustainable pace during the past seven years, with commercial banks as major lenders. Since 1988, the debt of Mexican states has increased at a pace of 62% in real terms (Figure 6) a sharp increase in State expenditures in real terms since 1987 (Figure 7).

The Constitution establishes that state debt should be acquired only for productive investments. However, the data show that this increased debt has not increased state revenues. On the other hand, perhaps its purpose has been to cover an increase in the cost of

<sup>18</sup> Table 7 shows that *participaciones* have a significant and positive correlation with State GDP and that "direct revenues" also present this type of correlation. The correlation however has decreased with time and with the inclusion of population in the formula. Higher provision cost would explain this pattern as well, however the pattern is a consequence of transfers being, to a large extent, still a reflection of tax collections before 1980.

Figure 6. Real State Debt



Source: Banxico.

Figure 7. Components of State Expenditures

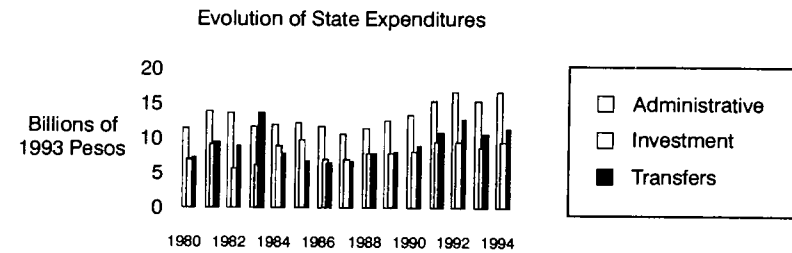
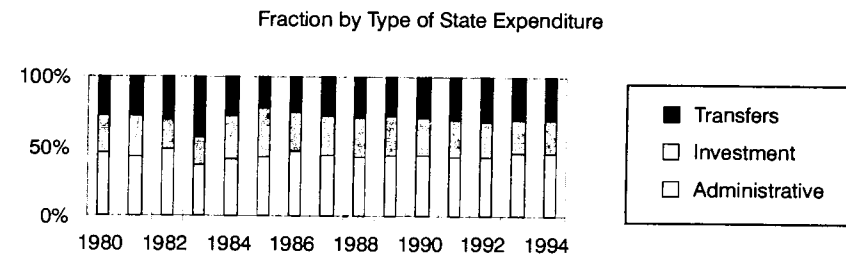


Figure 8. Proportion of State Expenditure Components



**Table 5. Summary of the History of the SCF**

<i>Year</i>	<i>Characteristics</i>	<i>Share of Fund</i>
1980-1983	The share is equal to the fraction of state collections in 1979.	18.45
1984-1986	The formula considers the economic development and collection efforts by the states. The Fondo Financiero Complementario (FFC) increases.	18.85
1987	The FFM becomes a fraction of the fund. Incentives to collect value added taxes.	19.25
1988-1989	The contingency reserve guarantees revenues at 1987 levels.	20.51
1990-1994	The formula includes the FFC and uses the population factor for sharing. Creates the Fondo de Reordenamiento Urbano.	22.72

Source: SHCP.

**Table 6. Federal Transfer Funds**

<i>Fund</i>	<i>Sharing Formula</i>
General de Participaciones (General Transfers Fund)	45.17% according to the number of inhabitants. 45.17% according to the increase in federal tax collections over vehicles and special bases multiplied by the share received during the previous year. 9.66% in inverse proportion to what was collected in per-capita terms according to the other two criteria.
De Fomento Municipal (Municipal Development Fund)	Increase in property taxes and water user charges collections multiplied by the share received during the previous year.
Reserva de Contingencia (Contingency Reserve)	Guarantees that states receive in nominal terms what their previous year grant.

Table 7. Participaciones Distribution and Direct State Revenues

Year	Dependent Variable	Independent Variables	Coefficient	t-statistic
1980	log of per-capita Participaciones	Constant	-4.856	-6.664
		log of per-capita State GNP	1.378	4.913
1985	log of per-capita Participaciones	Constant	-2.712	-5.505
		log of per-capita State GNP	0.632	3.111
1992	log of per-capita Participaciones	Constant	-2.359	-9.086
		log of per-capita State GNP	0.589	5.383
1995	log of per-capita Participaciones	Constant	2.506	2.414
		log of per-capita State GNP	0.408	3.648
1980	log of per-capita Direct Revenues	Constant	-4.983	-4.563
		log of per-capita State GNP	1.369	2.800
		log of per-capita Participaciones	-0.184	-1.182
1992	log of per-capita Direct Revenues	Constant	-4.288	-6.027
		log of per-capita State GNP	0.9263	4.255
		log of per-capita Participaciones	0.27107	0.767

Results from OLS regressions the White heteroskedastic robust procedure.

providing services or to make up for a decrease in revenues. Due to the lack of data on expenditure by function, and because the available information does not show a change in any particular type of expenditure (Figure 8), it is not possible to determine if cost increases are the cause of these persistent deficits. Furthermore, debt accumulation is not correlated with the sources of state revenues (federal or direct). That is, the over-borrowing problem is not exclusive to states with less revenue.<sup>19</sup>

It is therefore not possible to establish responsibility in this debt accumulation episode, as the needs are unknown, and shortage of state revenues does not seem to be the cause. A structural solution cannot be based on trend projections of current expenditures and revenues. It is necessary to clarify the functions performed by the different levels to determine responsibility. If these deficits are a consequence of higher costs, higher transfers are in order, on the contrary, if they derive from poor or deceitful administrations, higher transfers will simply increase an already inefficient allocation of resources.<sup>20</sup>

In summary, the SCF agreement has always generated grievances, since the states claim that their revenues are not enough to cover their costs. At the beginning, the complaint was the lack of flexibility in the distributing formula. States complained that a higher level of economic activity required more resources. After a change in the formula to reflect economic activity, states that were engaged in expenditures based on their previous revenues demanded the establishment of a fund to guarantee constant transfers. This required an increase of the fund. Later, two more funds were introduced, bringing more resources to local governments. Finally, the FG, in an effort to relate costs to transfers, but arguing for equity, introduced population as a factor in the distribution formula. The FG had to further increase the size of the fund to keep rich states in the agreement. At the present time, showing their recently accumulated debt as a signal of their insufficient revenues, states are asking for a still larger fraction of federal tax collections.<sup>21</sup>

<sup>19</sup> Table 8 presents regressions of debt accumulation with several variables.

<sup>20</sup> In Gamboa (1997) the local indebtedness problem is analyzed.

<sup>21</sup> For 1996 the fraction of federal revenues to be transferred has increased again.



Table 8. Regressions on State Debt

Dependent Var.	Independent Var.	Coefficient in 1	t- statistic in 1	Coefficient in 2	t- statistic in 2
Outstanding Debt	Constant	0.045	1.598	-0.019	-0.844
	Participaciones	-0.016	-0.147	-0.063	-0.926
	Direct Revenues	0.100	1.356	0.118	2.183
	GNP	0.000	-0.675	1.829	1.338
Change in Real Direct Revenues	Constant	0.084	1.208	0.022	-1.024
	Own Revenues (-1)	0.700	1.387	0.202	2.172
	Debt (-1)	-119.05	-1.571	-24.26	-1.271
	Debt (-2)	-100.94	-1.237	-14.97	-0.616
	Debt (-3)	12.74	-0.166	-197.15	-2.180

Coefficient in 1 means 1991 data, and in 2 1992 data for the dependent variable and those for which a lag is not specified. The number in parenthesis shows the number of lags that the independent variable has with respect to the dependent one.

#### 4. Transferring Functions and Funds in Exchange for Cost Information

Different levels have different abilities in the allocation of functions. In providing government services there is a tradeoff between coordination, which requires centralization, and the need for local information, which is better handled at the local level. Local levels can more easily identify community preferences over local goods. They are able to react faster to new needs, and save higher authorities from processing large amounts of information. This is the basis for taking subsidiarity as dividing criterion: state and local governments should be favored when information about local conditions is important. On the other hand, in cases in which the actions of a SG complement the actions taken by another SG, federal direction would be preferred: that is, when there is greater need for coordination because the service affects many states.

However, as Table 1 shows, for many functions, the separation among levels is especially difficult. Which level should be in charge of these functions? There is no obvious answer, as the variation across countries shows. The particular conditions each level faces translates into different preferences in the provision of these functions (*i.e.* public allocation of funds varies depending on the level that provides the functions). As the need for coordination increases, these preferences tend to diverge. Local authorities tend to ignore complementarities and externalities, while it is more expensive for federal agents to acquire local demand information.

The assignment of functions depends on who decides the assignment. The FG, the SGs, and a benevolent central planner would hold different opinions. Table 1 presented the central planner's allocation. The current Mexican division because of its revenue centralization perhaps shows the FG's preferences.<sup>22</sup> When a function is not legally assigned to a specific level, the level with the richer tax base will keep it to meet its own priorities. The history of the fiscal structure determines the possible reforms (Bird, 1992, and Quigley, 1993). In Mexico, the evolution of the institutional arrangement has benefited the FG at the expense of the SGs. As the preferences of the two levels diverge,

<sup>22</sup> The SG's opinion was presented in the 1995 meeting of state secretaries of finance. Five central states of Mexico, which constitute fiscal Zone 5, suggested that the federal level would only keep international matters and national defense.

the FG tends to keep the function rather than delegate it (Armstrong, 1994). This explains the high degree of centralization in Mexico and the division of expenditure functions. However, having the control over a function and providing the service are two different things. There are mechanisms to transfer functions without relinquishing control, in this paper only one is analyzed, but first it is important to identify cases in which this transfer of functions is beneficial for the FG.

The advantages of delegation are, first, that provision could be made according to local market information, and, second, that by separating responsibilities, more powerful incentive schemes could be instituted. The advantage of decentralization over integrated provision is a better match between local preferences and provided services, which implies savings on information gathering and processing activities. In its allocation decisions the FG level recognizes the superiority of the SGs in providing local information as investment planning is carried together with SGs. The final outcome, however, is a federal responsibility.

The mechanism creates distortions because local governments negotiate funds trying to satisfy federal preferences over expenditures in SG preferred activities. At the bargaining table, these governments overstate the needs in which there is a federal concern, to attract more resources, and try to shape federal programs according to their own priorities.

The federal level attempts to overcome this difficulty in two ways. First, by having each federal agency negotiate separately on behalf of the federal level, and second, by encouraging the state level to provide part of the funding for state activities, in order to evaluate the state need for federal funds. However the discretion involved in these procedures do not align the preferences of the two levels; neither do they extract all state's private information. Contrary to these objectives, they multiply negotiation costs, and give weak incentives for the SG to search for better investment projects for which they do not pay the costs, and the states end up encouraging their preferred activities in any case. On the other hand, decentralizing responsibilities through an objective system of transfers conditioned on service delivery could use this private information for a better performance.

In those functions in which there is simultaneous provision by federal and state governments and there is local advantage, there could be the additional benefit of having a clear assignment of responsibility in case of service deficiency or insufficiency. This assignment

allows for the use of strong incentive schemes. Those who blame lack of accountability to the absence of locally generated revenues frequently neglect the benefit of a clear assignment. In Mexico, several thousand demands for local services were addressed directly to the federal level, through Solidarity. The blame for local community demands that were not met could go to either one of the three levels. The clear delineation of responsibilities is particularly important now that different political parties are running different levels of government. This being the case, politics may start to jeopardize local service provision. Many problems of decentralization can be solved by using conditional grants, where the funds are allocated to the function favored by the FG on the basis of an objective formula.

### 5. Concluding Remarks and Policy Recommendation

Mexico is relatively centralized. State and local levels decide over a lower share of government expenditure than in other federal countries. The federal level intervenes in many functions that could be efficiently provided at the state or local level. On the revenue side, state and local levels are very dependent on federal grants, which limits their ability to adjust revenues to expenditure needs.

Created in 1980, the SCF transfers federally collected revenues to local governments. The system has been successful at increasing total government collections, but the division among levels and governments has created other problems. First, proceeds are not distributed according to government needs and seem to be insufficient to cover their provision costs. Second, by giving up part of their tax bases, the state level became particularly dependent on these transfers. And because the division of expenditure functions is not clearly determined, the assignment of most expenditure functions has gone to the FG, the level with enough resources to finance these activities.

Under these conditions improvements toward decentralization depend on the advantages that the FG sees in delegating functions to other levels. The advantage of delegation is that local levels have access to information on community needs and preferences. This allows these governments to make a more efficient allocation of public funds. For the FG, collecting this information is costlier, and the problems of processing all the information are even greater. Therefore there is a gain for the FG in transferring functions that require large

amounts of local information (*i.e.* functions where coordination among states is not very important).

However the FG has two concerns with SG provision. First, for some services the interests of the SG and the FG do not coincide. The FG interferes with lower levels in those functions with some national characteristic (*i.e.*, functions that a central planner would not assign to the FG but that somehow affect the rest of the country). The FGs participation allows it to reflect its preferences on public allocations in these services.

The second problem is more specific to the Mexican context. Recently states have accumulated large debts, which cannot be traced to any specific service, as there is no good information to assess the origin of the recurrent deficits. Because of their dependency on federal transfers, the reaction of the FG has been to increase the fraction of the revenues it transfers to the states (and more recently some effort has been made to link transfers and costs). The suspicion of the FG is that by transferring more functions, it will lose all its control over revenues, as local functions would also be financed through the SCF.

But decentralization of more functions does not have to proceed along these lines. In particular, other types of transfers could achieve the objective of financing the cost of local functions and align local preferences with national interests.

The current system of transfers has to cover only local functions (those currently under the control of states and municipalities), using a formula that closes the gap between local revenues and service costs, *i.e.*, taking into account local tax bases as indicator of revenue capacity and population as an indicator of need.<sup>23</sup>

More specific to this paper, to finance functions with externalities or those that improve income distribution, conditional grants should be used. Conditional transfers should be used to finance national goods; *e.g.*, those with a distributive character, a per capita transfer that guarantees a minimum level would be appropriate, while a matching grant could guarantee that externalities are internalized. If transfers are conditional on an acceptable provision by the local government, the FG guarantees its interests and receives only the relevant information.

If transfers are conditional on expenditure by function, lower

<sup>23</sup> This indicator has the advantage of being objective, reduces rent-seeking activities, and is available annually, which makes it flexible.

levels have to provide information on expenditure in the function. State and municipal governments have to improve their accounting practices and their release of financial information. A federalist structure, in which local governments act independently, requires revenue and cost projections, as well as transparent information about the use of public funds. This is an important step to improve accountability and also, as the recent indebtedness problem of the states shows, to define whether more transfers are required.

These transfers should not be discretionary, but proceed from an objective formula that takes into account nationally adequate levels of provision and state capacity to raise revenues for the function. Currently in Mexico, federal agencies take local information for their planning, but in their negotiation with local governments, SGs provide biased information so as to obtain larger funds. Furthermore, as the responsibility is not completely theirs, these governments have weak incentives to gather relevant information to take adequate decisions.

For this system to work it is necessary to have a clear assignment of responsibilities, with local public services provided exclusively by local governments (*i.e.*, those that the theoretical framework assigned only to states and municipalities). The FG has to concentrate on the other functions, without interfering in municipal and state responsibilities. It should persist (and even increase its participation) in the distribution function. However, it should restrict itself to progressive taxation and fund transfers that allow all regions to provide the adequate amount of services with national characteristics, leaving expenditure decisions to the states and allowing them to take responsibility for these decisions.

The transfers involved in the *Ramo 33*, established for the first time in the 1998 federal budget, are a start in this direction. There are five funds to finance education, health, local infrastructure, for states and municipalities, security and other local issues, and for debt problems. There is a definition of the responsibilities of each government.<sup>24</sup> The transfers of *Ramo 33* are predictable, as there is a calendar of the payments to each government.<sup>25</sup> The use of conditional transfers for education and health fits perfectly within this article: both are national services that are better provided at the local level. A debt

<sup>24</sup> The infrastructure fund could be an exemption in this respect.

<sup>25</sup> Although the calendar was not respected in the first quarter of 1998, as teacher's salaries were adjusted.

problem for local governments, in the context of the banking crisis Mexico is facing at the moment, is a national problem. Conditional transfers for local infrastructure are more problematic when they are aimed at local services, however several federations, such as the US, or the European Community use them to promote specific development objectives. The main problem with the *Ramo 33* transfers is that there is not a public formula for dividing them among localities. This allows for discretion in their assignment. It is important to solve this problem before recommending the extension of this mechanism to other functions. In any case, it is too early to judge the success of this procedure.

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