

NEW FEDERALISM IN MEXICO:
IMPLICATIONS FOR BAJA CALIFORNIA AND
THE CROSS-BORDER REGION

Briefing Paper

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Prepared by:

David A. Shirk, Ph.D. Candidate
Department of Political Science
University of California, San Diego

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INTRODUCTION

One of the defining features of the Mexican political system throughout most of this century has been its strong central government headed by an extremely powerful president. Over the past two decades, various initiatives and pressures have encouraged greater decentralization in Mexico. During the current administration, President Ernesto Zedillo has promoted an era of “New Federalism” aimed at shifting the balance of power in the Mexican political system to the state and local level. An ongoing process of democratization, which has created pressures for greater local autonomy and accountability, has reinforced this movement toward a greater balance in Mexico’s federal system of government.

Mexico's “decentralization” is highly significant because, today more than ever before, regional and local decision-makers must begin to think globally. New technologies and opportunities for trade have created a global economy in which businesses and individuals demand greater flexibility and responsiveness from policy-makers than nationally oriented administrative structures are equipped to provide. Accordingly, those undertaking decentralization initiatives in Mexico have mainly emphasized the benefits that localities and the nation as a whole will obtain from the resulting *accountability*, *efficiency* and *innovation* in planning, fiscal administration, and policy implementation.

Decentralization also has a powerful effect on the types of relationships that Mexico's state and local governments can form with each other and with their counterparts in other countries. Along the U.S./Mexican border, Baja California has been at the forefront of Mexican decentralization, which presents important opportunities for cross-border regional collaboration. These include the prospect of greater cooperation in the planning and implementation of infrastructure development, in the formation of welfare-enhancing public policies, and in the functioning and regulation of state and local economies in both Baja California and California.

This paper explores the issues that decentralization raises for federalism in Mexico and for the prospects of greater cross-border collaboration in the San Diego/Tijuana region. The paper is divided into four parts. The first section provides the reader basic terminology and core issues related to federalism and decentralization. The second section reviews the course of events that have both motivated and contributed to decentralization in Mexico. The third section familiarizes the reader with the case of Baja California, while the final section discusses how decentralization has affected the prospects for cross-border regional collaboration. This paper was prepared in conjunction with a July 1999 meeting of San Diego Dialogue’s Forum *Fronterizo* policy forum series.

WHY DECENTRALIZE? IN SEARCH OF FEDERALISM

Federalism is a political arrangement that combines subnational governmental autonomy with national integration under a central governmental authority.¹ “Decentralization” is a process

whereby power is transferred from a more concentrated arena, while “centralization” is the reverse of this process. It is important to recognize that there are various forms of decentralization. Authority can be transferred by developing mechanisms for power sharing within a given level of government (e.g., separation of powers) or it can be shifted outside of an administrative hierarchy (e.g., to non-governmental private or voluntary organizations). Authority can also be transferred from higher to lower levels of administration by two processes:

- Authority can be transferred to independently elected state, city, or neighborhood governments via *devolution* (“political” *decentralization*)², or
- Authority can be *deconcentrated* through “administrative” decentralization, which diversifies, extends, or creates agencies to operate at a lower level of aggregation (Rondinelli, 1989).³

Devolution is generally believed to be more beneficial for reinforcing federalism, since it transfers both decision-making and accountability away from the center and bolsters subnational government. In so doing, devolution maximizes some of the most commonly indicated benefits of federalism, including:

1. greater “political accountability” due to the increased proximity of decision-making to the affected constituencies (Rondinelli, 1989).
2. intergovernmental checks and a balance of power within the political system as a whole (Hamilton, et al. 1982; Elazar, 1976).
3. the promotion of administrative “efficiency” by matching public service provision to appropriate jurisdictions of competency and control (Shah, 1994; Garman et al., 1996).
4. the natural proliferation of more popular, beneficial, and innovative policies within and among “competing” subnational jurisdictions (Tiebout, 1956; Weingast 1995; Campbell et al 1991).

In short, while deconcentration maintains the supervision and control of functions under a higher level of government, devolution bolsters federalism. However, politicians who benefit from the concentration of power at the center may resist devolution because it diminishes their prerogatives.⁴

The distinction between deconcentration and devolution is extremely relevant to understanding decentralization in Mexico. The propensity to opt for deconcentration over devolution has been a major obstacle to the development of federalism in Mexico, where decentralization has been used paradoxically as a strategy for re-affirming the center's control. Moreover, in situations where legitimate devolution of authority has occurred, the federal government has often failed to devolve accompanying fiscal and administrative capacity to the state and municipal levels.

DECENTRALIZATION IN MEXICO

In Latin America, where a high degree of national and executive centralization has been a prominent characteristic for centuries, it was the debt crises of the 1980s that produced the most immediate incentives for many governments to promote decentralization.⁵ In addition to wholesale economic restructuring and austere fiscal policies, many of Latin America's central governments began to shift administrative responsibility to the subnational level in order to reduce expenditures. At the same time, the debt crisis coincided with accelerated processes of democratization, which in many cases increased pressures for greater autonomy at subnational levels of government.⁶ In Mexico, many of these factors came into play in the context of its particular and long-standing political institutions. This has contributed to a uniquely Mexican process of decentralization.

Overview of the Mexican Political System

The system of government that was born out of the Mexican Revolution (1910-1917) comprises 31 state governments, a federal district, more than 2,400 municipal governments.⁷ At the federal, state, and municipal level, power was nominally divided among the executive, legislative and judicial branches of government. Yet despite all of these structural characteristics, political authority has been extremely concentrated within this system. While partly a continuation of Mexico's "centralist tradition" stretching back to the pre-Hispanic era, the particular features of the post-revolutionary system contributed in important ways to centralization in the 20th century.

First, since the revolution the Mexican system has been characterized by an extremely powerful president, whose primary limitation was his ineligibility for re-election to the same office. While most pre-revolutionary presidents had been the center of power and could remain in office for multiple terms, the introduction of the "no re-election" rule after 1910 concentrated authority in the *office* of the presidency, rather than in the personality in office.⁸

While in office, a president's power was nearly absolute because of a second fundamental characteristic of the post-revolutionary system, the existence of a single hegemonic political party. For nearly 80 years, the organization today known as the Institutional Revolutionary Party (*Partido Revolucionario Institucional*, or PRI) dominated the Mexican political system at virtually all levels of government. In effect, the existence of the ruling party enabled the president to undermine the institutional separation of powers that permits a three branch system of checks and balances to function on paper.⁹ Despite these anti-democratic tendencies, the PRI also contributed to Mexico's post-revolutionary consolidation and long-term political stability. At the same time, the PRI's lock on electoral mechanisms made possible a tolerance for the existence of other parties within the regime, which contributed to systemic legitimacy and the illusion of democracy in Mexico.

A third fundamental characteristic of the post-revolutionary system was strong state interventionism in the economy in the name of Mexican nationalism. Though concentration of

authority in the hands of the central government was easily legitimated during the extended period of economic growth known as the “Mexican Miracle” (dating from roughly 1953 to 1970), economic difficulties and increasing political dissent began to undermine the regime's stability by the 1970s. In the 1980s and 1990s, a series of economic and political crises were met with extensive “neo-liberal” or market-oriented reforms and increased democratization.

In many ways, these recent changes are filled with promise for Mexico's economic and political future. President Zedillo's successful navigation through the 1994-95 peso crisis has demonstrated the nation's current leadership's ability to respond responsibly to economic difficulties. At the same time, the incremental political reforms of the past two decades—combined with an unprecedented tolerance for political pluralism—have brought major advances for Mexican democracy. Evidence of this progress has included the election of the nation's first opposition majority congress in 1997 and the recognition of nearly a dozen opposition governors, hundreds of opposition mayors, and thousands of opposition legislators and city council members.

Decentralization in Mexico: Towards A True Federalism?

Decentralization has been an essential component and partial result of the dramatic political and economic changes described above. As measured simply in terms of the fiscal distribution of public revenues, it is clear that states and municipalities have always held an extremely small stake in the Mexican system (see Table I). However, there were clear trends toward even greater centralization in the 1960s and 1970s as the public sector took on a more sizable role in the economy.

Table I: Percentage of Public Revenues by Administrative Level in Mexico, 1900-1992

<i>Year</i>	<i>Federation</i>	<i>States</i>	<i>Municipalities</i>
1900	63.0	24.1	12.9
1923	72.6	14.5	12.9
1930	68.7	22.9	8.4
1940	71.4	23.3	5.3
1950	78.3	18.4	3.3
1960	78.6	18.6	2.8
1970	86.4	12.0	1.6
1980	89.4	9.4	1.1
1991	81.4	15.5	3.4
1992	73.6	21.9	4.5

Source: Adapted from OECD. *Decentralisation and Local Infrastructure in Mexico: A New Public Policy for Development*. OECD, 1998, p.22.

The three most recent presidential administrations (1982-88; 1988-94; 1994-2000) have each played at least some role in shaping the course of decentralization in Mexico. However, in the decentralization of political authority beginning in the 1980s, devolution has not always been the actual intention or result of reform efforts.

First, in 1983, President Miguel de la Madrid (1982-88) introduced amendments to Article 115 of the Mexican Constitution that were intended to revitalize local government and help fuel the nation's social and economic development.¹⁰ In theory, municipal governments were given responsibility for the following areas: water supply and sewage, sanitation, urban roads and transportation, parks and cemeteries, slaughterhouses and markets, public lighting, local police and traffic, land use planning, and environmental protection.¹¹ In practice, however, there were several problems with these early decentralization initiatives.

First was the fact that the 1983 municipal reforms granted local governments the responsibility to operate in policy arenas that they were not equipped to manage because of their limited financial and administrative capacity, often leading to "the *de facto* performance of many of these functions by state governments" (Nickson, 1995). As the last link in the PRI-dominated political food chain, local governments had traditionally relied heavily on the largesse or intervention of the state and federal governments to provide infrastructure and even basic services. This situation changed little under de la Madrid's reforms. In fact, as the opposition began to win spaces at the municipal level over the course of the decade, non-PRI mayors frequently found themselves politically and financially marginalized (even harassed) in their relationships with the state and federal governments (Cornelius, et al., 1999; Rodríguez and Ward, 1994).

A second problem with decentralization initiatives under de la Madrid is that, despite the central government's formally stated agenda of devolution, many of its agencies and activities were merely "deconcentrated"¹² that is many federal agencies simply "localized" the center by creating mechanisms and programs that provided a direct link between local actors and the federal government. Thus, the central government seems to have merely pursued decentralization as a means of regaining the regime's eroding legitimacy and to reinvigorate the center's control (Cornelius, et. al 1994; Rodríguez, 1998).

Under the administration of President Carlos Salinas (1989-1994), some important changes did occur, though in many ways Salinas also used decentralization, paradoxically, to restore presidential legitimacy and to enhance his own power. The most obvious example of this paradox was the National Solidarity Program (*Solidaridad*), a highly controversial social-welfare program stressing community participation. "Solidarity" also served to reinforce the center's power through deconcentration, because it deliberately bypassed state and local governments (and even, in some cases, the PRI) by extending the federal government's linkages all the way to the community level.

On the other hand, Salinas indirectly contributed to the pressure for subnational autonomy by granting some very important concessions to the political opposition. Most notably, Salinas allowed the recognition of opposition gubernatorial candidate Ernesto Ruffo's victory in Baja California on July 2, 1989; pioneers like Ruffo became champions of subnational autonomy and advocates of fiscal decentralization.¹³ Salinas also oversaw a series of important initiatives to reform electoral rules and oversight processes. Since 1994, these reforms have produced the most transparent and widely accepted federal elections in Mexican history.

Finally, Salinas has been both credited and criticized as the chief architect of the comprehensive reforms that comprised the bulk of Mexico's economic restructuring in the early 1990s.¹⁴ Yet by reducing the government's direct control over important sectors of the economy, Salinas also substantially reduced the prerogatives of future chief executives and thereby contributed to a form of (horizontal) decentralization that has transferred decision-making away from the central government and into the hands of private enterprise.

During the 1980s some critics charged that the transfer of fiscal autonomy was bottlenecked at the intermediate level, empowering states to the detriment of municipal governments (Rodríguez 1992, 1997). Under both de la Madrid and Salinas, some governors used their newfound political power to establish subnational authoritarian enclaves, which continue to constrain municipal autonomy. However, such governors were autonomous only to the extent that they held sway with the nation's chief executive. Traditionally, as the head of his party, the president could force any PRI governors that fell out of his favor to resign from office. In fact, from 1935 to 1996, an average of nearly *nine* elected state governors per president did not complete full terms (Amezcuca and Pardini, 1997).

At the end of the Salinas administration, Mexico was struck by an almost bizarre level of political chaos that brought armed rebellion, high-level political assassinations, scandals of various forms of corruption, and the worst peso devaluation since the early 1980s (Oppenheimer, 1996).¹⁵ Given the inheritance of these difficulties, current President Ernesto Zedillo Ponce de León had important incentives to decentralize. As Dr. Victoria Rodríguez noted in her 1998 article "Recasting Federalism in Mexico," "[a]fter Salinas' strengthening of the presidency, what was required was a strong president who would open up the horizontal political space between the three branches as well as decentralize vertically by trusting state governors, increasing the amount and transparency of revenue-sharing, and empowering local government."

The New Federalism in the Zedillo Administration

During the 1990s President Zedillo has made visible attempts to assert an agenda of "New Federalism," in which revenue-sharing allocations from the federal government, capacity to raise revenue through taxation and other mechanisms, and control of regional and social development have all been increased for the states. For all three levels of government the distribution of administrative functions has been clarified, with the major innovation being that both education and health care responsibilities have been largely transferred to the state governments.

At the same time, Zedillo's tolerance for increased democratization allowed for the election of the first opposition-dominated Chamber of Deputies in 1997. This provides a clear example of the "horizontal" aspects of the New Federalism at work, since PRI dominance had traditionally made the legislature little more than a rubber-stamp for the executive.¹⁶ This change is important for "vertical" decentralization as well, because Mexico's major opposition parties (which have captured several governorships and numerous local governments) have a large stake in expanding subnational autonomy. In 1998 and 1999, the opposition-majority legislative coalition began to

work toward this goal, approving new reforms to revamp Article 115 of the Mexican Constitution and promote municipal autonomy. These reforms include the following initiatives:

1. to promote long-term planning by allowing a two-thirds vote of the city council to make extended planning commitments; in the past, such arrangements could only be made with the approval of the state legislature.
2. to reinforce and ensure that the functions of municipalities as enumerated in the original Article 115 reforms (1983) are respected by the state governments.¹⁷
3. to make state revenue-sharing and fiscal contributions to municipalities more transparent
4. to enhance the direct control of municipalities in the exercise of their budgets.
5. to specify municipal responsibilities with regard to areas not currently included in the constitution, such as transportation, regional developmental planning, and ecology.
6. to ensure that local governments can collect taxes on properties occupied by local offices of federal and state agencies and publicly owned enterprises.

The second of these new reforms is especially important because—partly due to the limitations faced by many local governments—many state governments have assumed control of functions designated to the municipalities. The reform is therefore meant to give municipalities the opportunity to take back jurisdictions that are rightfully theirs.¹⁸ However, this point raises some larger questions about the changes that have been described thus far: given the limitations of previous decentralization initiatives, how credible is the latest wave of reforms, and what are their implications?

First, given the circumstances of his rise to the presidency, Zedillo has had little choice but to allow for both greater decentralization and democratization. The crisis that Zedillo confronted at the start of his term made decentralization—transfer administrative burdens to the state and local level—a viable solution to the federal government's economic woes. At the same time, the presidency inherited by Zedillo was already significantly debilitated since many of the prerogatives of the office had been reduced by privatization under Salinas; the privatization of state-owned enterprises (a form of horizontal decentralization) effectively “sold” a substantial amount of power away from the executive branch.¹⁹

In addition, as a relatively obscure, last-minute replacement for the PRI's original candidate, Luis Donaldo Colosio (assassinated in 1994), Zedillo was without strong allegiance to the PRI's old guard and therefore more tolerant of the political progress of the opposition.²⁰ Again, this is important because democratization clearly seems to have contributed to the continued progress of decentralization in Mexico. An increased number of “opposition governments” at the state and local level in the 1980s and 1990s led to increased pressure on the center as governors and mayors began to appeal for greater and more equitable resource distribution and administrative

autonomy. Since 1997, the combination of these pressures with the breakthrough of an opposition-dominated Chamber of Deputies has led to the most serious efforts at devolution to date.

Ultimately, the decentralization efforts to date represent a series of “enabling reforms” that open the way to the assumption and execution of significant new responsibilities by state and municipal governments. However, there remain certain institutional and functional barriers to further democratization and decentralization. Until these problems are resolved Mexico will lack the benefits (i.e., accountability, balance of power, etc.) made possible by true federalism.

Fiscal decentralization. In order to realize the promise of federalism in Mexico, state and local governments require greater access to and discretion over the fiscal resources necessary to meet their existing responsibilities.²¹ On the one hand, this means more equitable revenue-sharing between the federal, state, and municipal governments. On the other hand, both levels of government require access to more effective mechanisms for generating their own revenue. Clearly, once provided greater flexibility in generating their own revenue, state and local governments must have the administrative capacity and political will to implement and adjust taxes, fees, and other unpopular revenue-generating mechanisms accordingly.

Re-election. The issue of re-election needs to be seriously considered as a means of fortifying subnational governments in Mexico.²² First, because they can not be re-elected, federal and state legislators have very little accountability to their local constituencies and, as Garman, et al. (1996; 1999) point out, few incentives to promote devolution as a means of benefiting their districts. Second, re-election would help to empower state and local government by allowing policy-makers to apply their experience in office over subsequent terms and work toward long-term goals (especially in state and local legislatures and municipal governments, where the terms of office are limited to three years).

Judicial Reform and Activism. In contrast to the United States—where the judicial branch played a very active part in shaping the character of federalism and continues to exercise its capacity as a check on the other branches—Mexico's courts almost never play a significant role in determining political outcomes. This is primarily due to the traditional dominance of the executive power, which has given presidents and governors undue capacity to manipulate this silent branch at their discretion. Though President Zedillo initiated limited reforms to reduce corruption in the judiciary at the beginning of his term, the courts remain virtually irrelevant as a political factor in the Mexican system.²³

Municipal Restructuring. Municipal governments are heavily dominated by their executives, mainly because there are no separate elections for city council members. Rather, most city council seats are always allocated to candidates from the mayor's slate, while the rest are distributed to candidates of minority parties. District or at-large elections for city council members would contribute to greater “horizontal” decentralization by creating the possibility of a check on municipal executives, and thus greater local accountability.

Because many of the above items have been completely omitted from the Mexican political agenda thus far, the process of decentralization is likely to continue at an unsatisfactory pace from the perspective of U.S. officials interested in cross-border collaboration. However, it is important to recognize the progress made over the past two decades, particularly as economic crises and political opening have increased the pace and extent of decentralization, both horizontally and vertically. Below, the specific implications of these changes are explored with respect to the case of Baja California. Particular emphasis is given to the prospects for cross-border collaboration afforded by the ongoing processes of decentralization.

DECENTRALIZATION IN BAJA CALIFORNIA

Baja California: A Special Case

Baja California holds a special place in the history of Mexican decentralization. Beginning in the 1980s, democratization brought opposition mayors and governors to power in the state, contributing to the political pressures for greater state and local decentralization.²⁴ But what are the concrete advances of decentralization in Baja California, and what are the implications of these changes?

The decentralization of power from the federal government has empowered the state government with respect to certain policy areas, while the state has in turn transferred some significant responsibilities to the municipal level. Greater state and local responsibility has brought many of the intended benefits of decentralization, including greater efficiency and policy innovation at both levels. Such advances are particularly relevant for Baja California, because the state's dynamic growth and economic activity creates an intense need for competent public administration, careful planning and implementation of infrastructure development, and effective delivery of basic services to an ever-growing constituency of corporate and individual interests.

Table II: Populations of Municipalities in the State of Baja California, 1990 and 1995				
<i>Municipality</i>	<i>1990</i>	<i>%</i>	<i>1995</i>	<i>%</i>
Ensenada	259,979	15.7	158,779	15.0
Mexicali	601,938	36.2	349,323	33.0
Playas de Rosarito	N/A.	---	23,999	2.2
Tecate	51,557	3.1	31,933	2.9
Tijuana	747,381	45.0	991,592	46.9
Total (State)	1,660,855	100	2,112,140	100
Source: INEGI, <i>Anuario Estadístico de Baja California</i> . (1991, 1997)				
Note: Playas de Rosarito was incorporated as a municipality in 1995.				

However, in order for state and local officials to play such a role, further decentralization is required, particularly with regard to revenue-sharing and local revenue-generating capacity, promoting greater subnational political accountability, and establishing a greater balance of power at the local level.

Administrative Decentralization in Baja California

Administrative devolution has occurred in Baja California as the state and local governments have taken on greater responsibility for a variety of services. The state government has assumed greater responsibility from the federal government for areas such as education, health care, rural transportation infrastructure, sewage, and water. Meanwhile, where they are capable of providing these services, the state government has in turn transferred greater responsibility to local governments for building permits, certain parks and recreational facilities, transportation, traffic control, and various aspects of urban planning.²⁵ At the same time, deconcentration of authority has been employed in Baja California as an alternative in areas where municipal governments are still under-equipped to provide certain services, such as land tenure regularization, large public works projects and housing, prisons, and water and sewage services and infrastructure.

Many of these changes at the state and local level were made possible by the efforts of the National Action Party (*Partido Acción Nacional*, PAN) Governor Ernesto Ruffo, who “brought to the governorship a desire to decentralize, based both on his experience as a municipal president seeking autonomy and on his belief in the right of self-governance” (Rodríguez and Ward, 1994: p. 104).

Fiscal Decentralization in Baja California

States and municipalities receive the bulk of their revenue through redistributive transfer mechanisms. Because the federal and state governments have traditionally had a great degree of discretion in such transfers to lower levels of government, fiscal decentralization—or the lack of it—has long presented an extremely important challenge to state and local autonomy in Mexico. Thanks to greater decentralization, Baja California has seen clear increases in both revenue-sharing and revenue generated by state and municipalities.

Beginning in 1989, Ruffo's government began to pressure the federal government for a more equitable distribution of federal revenue.²⁶ This was unprecedented in a system where PRI governors traditionally refrained from making waves in order to remain in favor with the all-powerful president.²⁷ Yet such pressure from the Ruffo administration appears to have been successful, as federal government transfers to the state of Baja California increased over 18 percent in real terms from 1989 to 1994 (from 447.9 million to 529.61 million pesos, respectively).

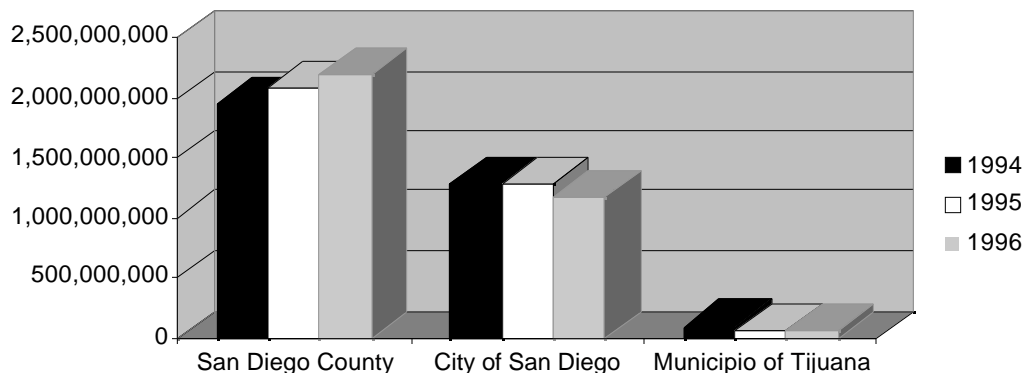
Yet urging greater transfer of federal revenue has not been the only effort made by state and local governments in Baja California to increase their fiscal capacity. Indeed, the greatest advances for both levels of government have actually come through increases in revenues generated by the state and local governments themselves (*ingresos propios*). Mexican states and municipalities generate revenue through their own taxes, fees, fines and surcharges, and revenues collected on state property and other assets. In Baja California, state generated revenue increased nearly 44 percent in real terms from 1989 and 1994 (from 212 million to 305 million pesos, respectively).

The increase in self-generated revenue in Baja California's state and municipal governments is largely attributable to anti-corruption measures and improvements to the professional administrative infrastructure required for revenue generation.²⁸ At the same time, Ruffo's devolution of authority for the assessment of property values from the state government to the municipalities enabled a dramatic increase in local revenue generation in Baja California (property taxes represent the most important area of self-generated revenue for local governments in Mexico).²⁹

Prospects for Further Decentralization:

Though some significant fiscal decentralization has occurred, there is substantial room for improvement. Municipalities, especially, remain highly dependent on the assistance of the federal and state governments, especially for large projects (which have been increasingly subject to earmarking controls that restrict local discretion and innovation). Even including federal transfers, municipal governments are severely limited financially when compared with their cross-border counterparts, which presents serious challenges to initiatives for cross-border collaboration. Figure I illustrates the extreme differences between the fiscal situations faced by Mexican municipal governments and county and local governments in the United States. It should be reiterated that municipal governments often play the roles attributed to *both* county and city governments in the United States.

Figure I: Comparison of the Budgets of Local Governments in San Diego and Tijuana (figures given in U.S. dollars)



Adapted from Paul Ganster, *Border Environmental Research Reports*, Number 1, June 1996, p.4.

Meanwhile, for both the state and municipal governments the lack of administrative capacity at lower levels has required both to opt for deconcentration over devolution in order to encourage greater decentralization. This is the case for water and sewage, which remains in operation by state-level agencies operating within the municipalities. Likewise, the current mayoral administration of Tijuana provides an excellent example of administrative deconcentration at the municipal level. Current Mayor Francisco Vega has worked to establish policy-specific

administrative coordinators in order to provide more specialized oversight across three broad areas (public safety, public works and services, and social policy). At the same time, granting greater responsibility to the city government's six appointed delegates (*delegados*), who supervise the municipal projects within smaller local jurisdictions, has localized policy implementation.

In short, democratization in Baja California has clearly led to a change in the distribution of administrative and functional capacity in the state. Revenue increases generated at the state and local levels are promising because they demonstrate that state and local leaders have the political will to utilize the mechanisms at their command in order to generate the revenue needed to fulfill their responsibilities. The primary challenges confronting decentralization efforts in Baja California appear to be related. First, the continued devolution of autonomy to appropriate levels of decision-making is necessary. This can be partly facilitated by resolving a second challenge, namely increasing the fiscal and administrative capacity of lower levels of government. In part, this will require Mexican officials to explore new alternatives for public financing, as well as greater reliance on public-private partnerships to implement major projects.

CROSS-BORDER IMPLICATIONS OF THE NEW FEDERALISM

Baja California's Decentralization and the Prospects for Cross-Border Collaboration

Traditionally, Baja California has been seen by many Mexicans as separate from the rest of Mexico. Geographically, Tijuana remains the farthest point in Mexico from the nation's capital, at 1,845 miles distance. In the context of increasing decentralization, Baja California's relationship with California holds the promise of even greater regional collaboration among policy-makers and private sector and non-governmental organizations (NGOs) at the local level. Decentralization has played an important part in empowering these decision-makers and organizations to work toward common agendas for regional prosperity and development. However, to ensure a sustainable future for the region, local stakeholders must establish the lines of communication and mechanisms necessary for joint action in the planning and implementation of regional policy innovations.

All of these factors make cross-border collaboration important for the state and its governments. In times of crisis, cross-border collaboration in the border region has helped to relieve short-term problems that threatened one or both sides of the border. One example of such collaboration came with the cooperative efforts of Mayors Héctor Osuna Jaime and Susan Golding to provide immediate rescue and relief from the tragic rains that hit the city of Tijuana in 1992-93.

Unfortunately, in an increasingly integrated region, cross-border collaboration can not be limited to emergency situations. Nor can it rely solely on working relationships established by well-intentioned individuals. While developing personal relationships between public officials, the private sector, and community leaders on both sides of the border is an essential part of the region's development; such relationships must be enabled and reinforced by lasting institutional

mechanisms. The processes of decentralization in Baja California provide important opportunities to develop such mechanisms.

At the most basic level, such cooperation can be facilitated through cross-border information sharing. More effective and regular flows of information across the border would enable public officials and organizations in the region to better understand each others' needs, to evaluate the opportunities for collaborative initiatives, and to learn new and better approaches to planning and problem-solving. Because decentralization has occurred very recently, many local planners and public officials on the Mexican side of the border are still in the process of learning how to approach the most basic problems that fall within their jurisdictions. As a result, their U.S. counterparts can play a positive role by taking the initiative to establish dialogue and assistance, which will eventually contribute to the strengthening of regional planning.³⁰

The Implications of Decentralization: The Case of Water

Prior to the 1980s, the National Water Commission (*Comisión Nacional del Agua*, CNA), an agency of the federal environmental ministry (*Secretaría de Medio Ambiente, Recursos Naturales y Pesca*, SEMARNAP), was the administrator and custodian of all matters relating to water in Mexico. CNA operated according to national directives to preserve water quality and quantity, provide basic water services, and oversee the construction and conservation of hydraulic infrastructure.

In Baja California, state and local governments have begun to play a much larger role in water-related infrastructure and service provision over the past decade. Until the 1970s, the state's hydraulic resources were concentrated in and around the Mexicali Valley. That area received water from the Colorado River and from subterranean aquifers, which together represent almost 90 percent of the state's available water. In 1975, the federal government initiated a project to convey water to Tijuana, which historically suffered from periods of prolonged drought. That project, an aqueduct from the Colorado River to Tijuana, began operation in 1982. The aqueduct remained under CNA control until 1989, when PAN Governor Ernesto Ruffo and the federal government negotiated an agreement to transfer responsibility for the aqueduct and complementary water services to the state level.

The state organization that emerged from this negotiated transfer of responsibility, the State Water Services Commission (*Comisión de Servicios de Agua del Estado*, COSAE), was charged with the planning, oversight, and evaluation of water service provision, including its conveyance, treatment, potabilization, and distribution. The COSAE plays the same role in the provision of sewage and drainage services throughout the state. Administratively subordinate to the state's public works agency, the Secretariat of Human Settlements and Public Works (*Secretaría de Asentamientos Humanos y Obras Públicas del Estado*, SAHOPE), COSAE collaborates with SAHOPE and other agencies to implement its programs.

Upon assuming their greater responsibilities, state administrators faced the challenge not only of meeting the demands of a rapidly increasing population, but also extending coverage to areas

where services had long been neglected. Both the state and local governments have successfully cooperated to promote programs for the improved conveyance and purification of water, and to increase the networks of potable water distribution in urban areas. From 1989 to 1995, such initiatives more than doubled the number of water taps in the homes of Tijuana and Tecate residents and also brought significant increases in both Mexicali and Ensenada (see Table III).

	1989	1995	% Increase
Tijuana	109,000	221,244	102.97
Mexicali	101,000	135,575	34.23
Ensenada	34,246	53,323	55.70
Tecate	6,350	12,757	100.89
Total	250,596	422,889	68.75

Source: *Poder Ejecutivo. La Experiencia de Gobierno-Baja California: 1989-1995*. Mexico City: *Fundación Rafael Preciado Hernández*, 1996. Figure 37, p. 374.

In part, these improvements were made possible by dramatic increases in the price of water, though state policy-makers defended the increases on the grounds that existing prices did not reflect the cost of service provision and accounted for poor quality of service. In fact, prior to the state government's push to improve water services, a large portion of water recipients did not meet their payment obligations. Several measures were taken to resolve this problem by improving administrative systems, including the computerization of billing operations, the decentralization of payment offices, and the privatization of measurement of water usage.

These changes met with significant political resistance and controversy, but also brought unprecedented improvements in water provision. Furthermore, under the control of the state government, COSAE dramatically improved service provision in the state by establishing a permanent program for the maintenance and modernization of the Colorado River-Tijuana aqueduct and its complementary works. In Tijuana, for example, the COSAE works with the *Comisión Estatal de Servicios Públicos de Tijuana* (State Commission of Public Services of Tijuana, CESPT), which oversees the provision of a variety of services, including the city's water and sewage program. Under the direction of José Guadalupe Osuna Millán (who later served as the city's mayor, 1995-1998), CESPT received the support of the Inter-American Development Bank to help finance its works.

Despite major advances, state water authorities in Baja California have determined that Tijuana will need a new aqueduct to carry water from the Colorado River by 2003. Recent studies by the San Diego County Water Authority (SDCWA) have determined that the construction of separate

aqueducts by San Diego and Baja California for the transfer of Colorado River water would be extremely expensive. This raises the issue of possible collaboration on the construction and operation of a joint aqueduct in the region. The government already holds rights of way within Baja California for an aqueduct to Tijuana. However, Mexico's National Water Commission (CNA) seems to favor the construction of desalinization plants as an alternative means to ensuring Tijuana's future water supply. While the up-front capital costs for this solution are significantly less than a new aqueduct, the operating costs would be much greater. The desalinization plant, moreover, has a working life cycle of only fifteen years and would need to be replaced at that time.

Because issue of a joint aqueduct between San Diego and Baja California will involve federal, state, and local officials from both sides of the border in a complicated, crisscrossing series of negotiations, this will be an important test case of the New Federalism in Mexico.

Other Targets of Opportunity

Cross-border collaboration must go beyond information and understanding to come to real solutions and effective action to resolve common problems and to achieve shared objectives. On and between both sides of the border, the answer lies not in any one sphere of activity but in promoting public-private-NGO collaborations that pool their collective human and financial resources. The decentralization initiatives in Mexico may help to create a more level playing field for creating these collaborations by offering new financing mechanisms, decision-making processes and professional development that can help to close the gaps in capacity that have historically existed between local governments in the border region.

Specifically, decentralization is contributing to the viability of collaborative cross-border initiatives and innovations across several policy areas, including:

Housing. In the housing sector, the concept of dollar-based mortgages represent one area in which cross-border collaboration could be advanced by state-level activity in Baja California. Dollar-denominated mortgages would help to reduce the cost of housing for those segments of the Baja California population that either earn wages in dollars or tie the price of their services to the value of the dollar. A critical step in the creation of these housing finance mechanisms would be the development of an effective expedited mortgage foreclosure process. This is likely to require the passage of new legislation at the state level in Baja California to amend the state Civil Code and the state Code of Civil Procedure. Similar legislation has recently been passed by the legislatures of other Mexican states. Because of the importance of state legislators in this area, this represents a new opportunity created by horizontal decentralization.

Health Care. Mexico has begun to decentralize its public health care system, and the public health workers who were formerly federal employees are now employees of the state of Baja California. However, significant health care policy continues to be developed in Mexico City and the exact nature of state and local responsibilities in this sector is still

being defined. Nevertheless, decentralization in the health care sector is opening new opportunities for cross-border collaboration around the provision of health care, particularly for public health services. Among the recent example of collaborative activities is information sharing between the County of San Diego Department of Health and Human Services and local health agencies in Baja California. Another important collaboration is the Border Health Initiative, a multi-agency collaboration focusing in tuberculosis and other transmissible diseases, which includes foundation funding support to local agencies in Baja California for health education and outreach activities.

In the future decentralization and the provisions of the NAFTA may combine to move the region towards a more seamless binational health care system. The features of such a system might include physicians licensed to practice medicine on both sides of the border, portable cross-border health insurance products and medical care administered by telemedicine from San Diego to Baja California.

Community Development. The Baja State Congress is reviewing modifications to the State Budget Law that would mandate that a minimum percentage of the state budget be dedicated to fund community-based, non-governmental organizations involved in community development work. Such a provision would mirror the tendency of local governments on the San Diego side of the border, particularly the County of San Diego, to outsource service provision and outreach activities to community-based organizations. Joint programs designed to obtain similar outcomes among similar populations on both sides of the border could serve to strengthen communities while preventing redundancies in service and compensating for service population mobility.

Urban Development and Planning. As part of its decentralization efforts, the Mexican federal government has mandated the creation of quasi-independent local planning agencies. These agencies are designed to provide continuity across municipal political administrations and to strengthen local capacity for long-term planning. The development of these entities in Baja California should create new opportunities for cross-border planning on major urban development infrastructure projects, including the redesign and expansion of the land ports of entry. Expanded local capacity for planning in Baja California should offer new tools for elected officials and community organizations on both sides of the border to plan and redevelop local border neighborhoods that meet community objectives and the trading needs of the entire region.

Finance and Access to Credit. Underlying many of the challenges facing the cross-border region is the absence of public and private financing alternatives in Baja California. The absence of municipal financing alternatives constrains the development of new infrastructure, the enforcement of health, safety and environmental regulations, the provision of social services, and the growth of an extensive civil service. The absence of municipal finance in Baja California often creates an unequal stage for exploring opportunities for binational collaboration around specific policy issues.

Baja California is also challenged by the absence of personal and private market credit mechanisms that would assist its development. For example, there is no secondary mortgage market in Baja California, which limits the development of adequate and affordable housing for its workforce. Similarly, while consumer credit is widespread in Baja California, the absence of mechanisms for small business financing is an additional constraint on the region's development. Given the high degree to which prices and wages in northern Baja California are tied the dollar, the creation of dollar-denominated credit mechanisms has been advanced as a possible tool to assist the development of the binational region.

The processes of devolution under way in Baja California offer exciting new opportunities for the cross-border region to close this "credit gap." The successful lobbying for state and local autonomy in Baja California by successive PAN regimes has served to begin to redress the disproportionate flow of assessed revenues out of the state and has helped to increase the efficacy of local revenue collection. The cross-border region has the opportunity to build on this progress by examining new financing and credit mechanisms that leverage the integrated nature of the region's economy.

CONCLUSIONS

Federalism in Mexico is slowly becoming a reality. This progress has been made possible by the continued opening of the nation's political system and by a greater commitment on the part of decision-makers at all levels of government to the redistribution of power within that system. The de-centering of the regime promises to bolster Mexico's democratic institutions by providing a balance of power between different levels of government and reducing the opportunities for abuse of power by any one part of the system. Federalism holds the promise of innovation, greater regional and local expression, and enhanced efficiency in the formation of public policies.

Despite the opportunities that decentralization appears to hold for Mexico, important challenges still must be addressed if the country is to realize the promise of federalism. Chief among these is the further devolution of fiscal and administrative capacities to the state and local level, so that effective and sustainable mechanisms of governance can be created at the local level. While the prospects for federalism have important domestic implications for Mexico, they also have tremendous international implications with respect to the ongoing development of collaborative initiatives to promote regional planning and development along the U.S./Mexican border.

Baja California's experience suggests that there are many points along which the prospect of greater decentralization will facilitate cross-border cooperation for the betterment of the region. However, for local decision-makers, organizations, and communities to take advantage of these changes, they must first begin to understand the opportunities for and importance of regional planning and collaboration.

ABOUT THE AUTHOR

David A. Shirk is a doctoral candidate in the Political Science Department at the University of California, San Diego. He has done extensive research on the politics, economy, and public policy issues of Baja California. Much of this research has been compiled into a report, *Resource Guide to Baja California for U.S. Elected Officials*, which will be published later this summer by the Center for U.S.-Mexican Studies, San Diego Dialogue, and the *Universidad Autónoma de Baja California*. Mr. Shirk also specializes in the study of political parties in Mexico and has done extensive field research on the subject in different cities around the country. His Ph.D. dissertation focuses on the National Action Party (PAN) and explores the internal, organizational shortcomings, ideological fissures, and center-periphery tensions that have affected the PAN's development and ability to compete successfully for power at all levels. During the 1998-99 academic year, Mr. Shirk was a Visiting Research Fellow of the Center for U.S.-Mexican Studies. He will defend his Ph.D. dissertation in Fall 1999.

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¹ The alternative, a “unitary” system of government, also has a hierarchical division of labor between the central government, regional administrators, and even locally elected governments. However, in a federal system, regional or provincial administrators have independent authority granted by their constituencies, while their unitary counterparts are directly accountable to the central government, which sets a national policy agenda. Great Britain, France, Japan, New Zealand, and Ecuador are examples of unitary systems.

² Rondinelli (1989) refers to “devolution” as both the financial and legal strengthening of subnational units of government. Here the terms “political decentralization,” “devolution,” “fiscal decentralization,” and “functional decentralization” are all used synonymously, though below the problems associated with devolution *sans* fiscal decentralization are considered in greater detail.

³ For example, a government might create field offices to operate at the regional, state, and local levels, or even specialized agencies to focus on a particular aspect of public policy. Doing so brings a government in touch with the issues relevant to a geographic region or given policy area, while maintaining the center's ultimate administrative control.

⁴ In such cases, according to Rodriguez (1987), “[w]hat is problematic about devolution, from the central government's perspective, is that it implies granting autonomy, and in most cases—if not all—the center is reluctant to lessen its control.” p. 7.

⁵ The trend toward decentralization has been prominent around the globe since the 1980s. Proclaiming an era of “global paradox” and the “end of the nation state,” scholars and pundits have since argued that the challenges of a rapidly shrinking world of communications, trade, and finance have contributed to the late 20th century trend toward decentralization (Naisbitt, 1994; Ohmae, 1995).

⁶ As Garman et al. (1996) note, the debt crisis of the 1980s “exposed the vulnerability of large central governments and placed a greater premium on efficiency in the delivery of services,” while democratization enabled political entrepreneurs and interest groups to challenge the inefficacy and political exclusion of centralization.

⁷ There are no other elected governmental units, such as counties, in size and function, municipal governments could be thought of as a combination of county and city government. However, as discussed below, most municipalities have far less functional and fiscal capacity than most U.S. counties and cities.

⁸ Because no one individual or group could easily monopolize power beyond a single six year term, control of the presidency offered a one-shot grab at the privileges and spoils of office in order to ensure a lifetime of luxury.

⁹ The same applied to governors and mayors to a lesser extent within their own jurisdictions, since they too were assured of PRI dominance and cooperation (unless their superior decided otherwise).

¹⁰ One of the interesting contrasts between the United States and Mexico is that their constitutions have explicit provisions to ensure the authority of very different subnational entities. The U.S. Constitution is very explicit about the rights and responsibilities of state governments, with no mention of the nature or structure of local governance. The Mexican Constitution on the other hand spells out almost no specific duties for state governments, while outlining very specific roles and responsibilities for the “free municipality” (*municipio libre*).

¹¹ In addition to the stated objectives of the reforms, they also constituted an attempt by the de la Madrid administration to win back support for the regime after the political and economic crisis of 1982. This crisis was brought on when outgoing President José López Portillo alienated the business sector by nationalizing Mexican banks and initiating major peso devaluation.

¹² The extent of “horizontal” decentralization was also constrained under de la Madrid, since privatization initiatives were limited and there was no significant political balance of power within any level of government.

¹³ Concessions to the political opposition were ceded very strategically under Salinas. For example, though clearly the beneficiary of some tolerance, PAN was also denied probable gubernatorial victories during Salinas' term. Meanwhile, the increased spaces granted to the PAN were contrasted by the intense persecution of the center-left Party of the Democratic Revolution (*Partido de la Revolución Democrática*, PRD) comprised largely of PRI-defectors.

¹⁴ The privatization of state-owned enterprises temporarily strengthened the center by providing the president with the resources to implement neo-populist programs which helped to moderate the economic costs of neo-liberalism and build support for the regime (Dresser, 1991).

¹⁵ After Salinas left office, he was blamed for many of these disturbances and went into self-exile in 1995. In June of 1999, Salinas returned to Mexico from the refuge of Ireland for the first time since he fled the country in 1995.

¹⁶ The increasing balance of power made possible by a greater opposition presence within many state governments has also contributed to greater power sharing at that level. The nature of local elections currently prevents divided government at the municipal level, since city council members are not elected independently and the majority of them always come from the mayor's slate.

¹⁷ Note: the proposed reforms would continue to allow municipalities to abdicate municipal functions to the state only on a voluntary basis.

¹⁸ For example, in the majority of Mexican municipalities state governors have assumed control over police functions. With the exception of state capitals, most municipalities that lack police units are poor, rural communities where this service can be impractical to maintain given a local government's resource base. Thus, many municipalities—especially in poorer and more rural communities—will require greater efforts to decentralize the administrative capacity and financial resources if they are to undertake these responsibilities. Meanwhile, since in some state capitals, governors have permanently dissolved municipal police forces, these reforms will enable capital cities to reassert their authority in this area.

¹⁹ Again, under Salinas, the presidency was temporarily strengthened by privatization since the funds generated by the sale of state enterprises was used partly to fund centralizing programs like *Solidaridad*.

²⁰ In fact, Zedillo started his administration by formally renouncing his role as the *de facto* leader of the PRI and thereby distancing himself from the ruling party and demonstrating his willingness to resist the use of the tremendous power within his grasp. Indeed, Zedillo seems perfectly willing to accept a transfer of the presidency to the opposition in the 2000 elections, a dubious distinction in the eyes of the PRI's old-guard, but a positive development in Mexico's democratic history.

²¹ Both federal and state officials have increasingly begun to earmark funds to determine the specific projects for regional and social development to be undertaken at the municipal level (Rodríguez, 1998).

²² In Mexico, re-election is absolutely forbidden for governors and mayors, though a *regidor* (city council representative) or *síndico* (an elected municipal auditor and internal investigator that also sits on the city council) is eligible for re-election to a different municipal office and non-consecutive re-election. There are actually a number of reasons why the re-election needs to be brought onto the national agenda. Ineligibility for re-election clearly contributes to office holders' traditional lack of responsiveness and accountability to their constituencies. No re-election also prevents office holders from gaining and applying experience over time; though many return periodically to legislative positions (after at least one term), most career politicians are eternally learning and adapting to unfamiliar conditions (Taylor 1997).

²³ Even in states where there has been considerable democratization and decentralization, courts do not appear to have taken on their due authority vis-a-vis the executive and legislative powers.

²⁴ The greatest advancement for decentralization in Baja California was clearly the advent of the first opposition gubernatorial administration in Mexico in 1989. PAN Governor Ernesto Ruffo Appel (1989-1995) proved a major advocate for decentralization, lobbying the federal government to transfer greater fiscal capacity to the state and local level, negotiating a transfer of political authority for a variety of policy areas from the federal to the state government, and initiating reforms to transfer greater authority to the municipal level.

²⁵ Local governments have been given some authority for some services that are also administered by the federal and state governments, such as health care and education.

²⁶ The federal government generates revenue from a variety of sources—corporate and individual income taxes, value added taxes, import and export duties, state-run enterprises (e.g., PEMEX), and payroll deductions for health care and social security—and redistributes that revenue through both revenue-sharing and highly discretionary allocations of funding for projects, social assistance, and federal programs. Except for specially designated funds for health care and social security programs and the like, revenue-sharing transfers are allocated from the federal government's general fund and from its municipal development fund. These redistributive transfers are meant to be based on the state or municipality's population, economic productivity, contribution to the federal budget, and social need.

²⁷ According to the Ruffo administration, "The posture of the [Ruffo] administration indicated a rupture in the unwritten rules between the President of the Republic and the governors. In contrast to tradition, in which state governors were required to bend to the disposition of the Federal Executive, Governor Ruffo and his collaborators criticized and denounced that the Fiscal Coordination Agreement, proposed by President Carlos Salinas de Gortari, contained inequitable [aspects] that violated state autonomy" (*Poder Ejecutivo* 1996: p.103).

²⁸ While PAN governments were clearly the initiators of such "good government" initiatives, PRI local governments in the state have made similar progress in generating increases in local revenue.

²⁹ This capacity was transferred only after individual municipalities in the state developed the administrative capacity to handle property assessments themselves. In many cases, properties had not been re-assessed for decades.

³⁰ However, increased cross-border flows of information should not be limited to regional planners and decision-makers. Informed citizens can contribute to the efforts of their public officials and hold them accountable in order to ensure continued, responsible and equitable development. For Baja California, decentralization gives local communities greater access to the officials responsible for such development. Thus, informative and serious media attention to the region's problems could help people on both sides of the border to recognize and work towards regional solutions.