The Political Economy of Federalism

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August 15, 2005

At least since Montesquieu, theorists of federalism have viewed it as a solution to a basic challenge—how to extend effective government beyond the confines of the city-state. For Rousseau, good government was not possible in countries with large populations or vast territories without some form of federalism. James Madison saw federalism as a way to provide collective goods covering a large territory without sacrificing local accountability. More recently, political scientists see federalism as a path to peace and democracy in divided societies, while welfare economists see it as a way to enhance the efficiency and accountability of government, and public choice theorists see it as a way of protecting liberty and curbing government's natural tendency toward excess.

While each of these perspectives has produced testable positive arguments, the abstract advantages of decentralized, federal systems over more centralized alternatives often take center stage. The purpose of this essay is to review the positive political economy literature that has arisen in response to the disjuncture between such classic normative theories and the practice of federalism around the world. The normative tradition made blunt assumptions about the malevolence or benevolence of public officials and attempted to design optimal federations, drawing on the notion that federalism implies a rigid and clean separation of the spheres of sovereignty allocated to central and lower-level governments while paying little attention to institutions and modes of preference aggregation. This approach led to the establishment of some useful normative benchmarks, but was not well suited as the foundation for empirical work. The new political economy literature draws more directly on political science by assuming that public officials are motivated by electoral goals. As a result, it places much greater emphasis on political incentive structures like parties, legislative organization, and electoral rules. Thus the new literature leads to more refined empirical predictions in which the effects of federalism—for instance upon fiscal behavior or accountability—are contingent upon other political, institutional, or demographic factors. Moreover, the prevailing view of federalism as a clean division of sovereignty between higher and lower-level governments is giving way to a notion that authority over taxation, expenditures, borrowing, and policy decisions is inherently murky, contested, and frequently renegotiated between governments, with federal constitutions analogized to the "incomplete contracts" of industrial organization theory.

The first section of the essay introduces the classical approach to the study of federalism. The second section reviews the influential normative approaches in economics in the 1970s and 80s and some of the empirical literatures they spawned. The third section reviews the newer positive political economy literature and the resulting empirical work as compliments to the normative approach, highlighting crucial questions of institutional design—fiscal discipline, accountability, macroeconomic and political stability—in contexts as diverse as the European Union, Brazil, and Iraq. Because this literature has largely ignored the endogeneity of institutions, the fourth section counsels caution in drawing policy implications from the new literature as it stands, and goes on to preview a nascent literature that attempts to explain cross-national variations in forms of federalism as well as diachronic evolution within countries.

I. The classical normative roots of the modern political economy literature

Montesquieu and Rousseau argued that citizens are more likely to get what they want from government if it encompasses a small, relatively homogeneous area rather than a vast territory. Yet small units are vulnerable to attack, while large jurisdictions can, if properly structured, avoid internal warfare and pool resources to repel attacks by outsiders. Alexander Hamilton emphasized additional advantages of large size—above all free trade—and modern public economics has added a few more—including advantages in tax collection, inter-regional risk sharing, common currencies, and scale economies in the production of public goods.

The goal of federalism—to achieve simultaneously the advantages of small and large governmental units—boils down to a vexing dilemma of institutional design. While Alexander Hamilton ruminated that a fragmented federation cannot provide collective goods or fight effectively against centralized despots, Thomas Jefferson feared a center that would accumulate too much power and run roughshod over the rights of the constituent units. Herein lies the central tension of much scholarship on federalism among political scientists since *The Federalist*: federations have a natural tendency either to become too centralized—perhaps even despotic—or so decentralized and weak that they devolve into internal war or fall prey to external enemies.

Thus the task facing institutional designers is the creation of a central government that is simultaneously strong and limited: strong enough to achieve the desired collective goods, but weak enough to preserve a robust sense of local autonomy. This was the central project in William Riker's (1964, 1987) classic work on federalism and the political science literature that followed. It is also the central challenge of institutional design in federations ranging from the European Union to Brazil and India.

Political scientists take federalism as a necessity in large, diverse societies, and have been preoccupied with finding the right balance between centripetal and centrifugal forces, searching for institutional, cultural, and political circumstances that allow for stable federalism and the avoidance of oppression or war in diverse societies (e.g. Bednar 2001, de Figueredo and Weingast 2004). Recently, Russia's precarious balance between despotism and dismemberment has taken center stage (Treisman 1999, Filippov, Ordeshook and Shvetsova 2004).

However, many of the world's federations are plagued neither with centralized dictatorship nor armed insurrection, but rather with bad policies, poor fiscal management, and in some cases persistent economic crisis. Policy-makers in Brazil and Argentina, for example, are less concerned with interstate military conflict than with inter-provincial trade wars and distributive battles over revenues and debt burdens.

The classical approaches in economics provided general prescriptions for a more efficient federal system to alleviate the problems of poor fiscal management and bad policies, but assumed away problems of politics, incentives, and stability. This division of labor between classical public finance, which concentrated on optimal tax collection and the optimal provision of public goods, and classical political science, which concentrated on the problems of centrifugal versus centripetal forces has, until recently, allowed some important questions to fall between the cracks separating the disciplines.

II. Benevolent despots, local competition and Leviathans.

Let us examine more closely the influential first generation of economic theories that generated such optimism about decentralization and federalism. Some of the basic insights of public finance theory suggest that federalism should have beneficial, even if unintended consequences for efficiency, accountability, and governance. Above all, decentralized federalism is thought to align the incentives of political officials with citizen welfare by improving information and increasing competition. First, the most basic observation is that in any political entity larger than a city-state, local governments will have better information than distant central governments about local conditions and preferences. The welfare economics literature, which takes its name from Wallace Oates' 1972 book, *Fiscal Federalism*,[1] flows naturally from the classics of political philosophy that emphasize the advantages of small jurisdictions. It assumes that political leaders are benevolent despots who maximize the welfare

[1] Oates was preceded by Musgrave (1959).

of their constituents, and prescribes decentralization according to the principle that “the provision of public services should be located at the lowest level of government encompassing, in a spatial sense, the relevant benefits and costs" (Oates, 1999: 5). Once the “assignment problem” is solved and appropriate tasks are devolved to local governments, “the hope is that state and local governments, being closer to the people, will be more responsive to the particular preferences of their constituencies and will be able to find new and better ways to provide... services" (Oates, 1999: 1).

Second, a vast literature on “competitive federalism” examines the supposition that, under decentralization, governments must compete for mobile citizens and firms, who sort themselves into the jurisdictions that best reflect their preferences for bundles of governmental goods and policies. The first generation of theory analogized decentralized governments to the private market and celebrated the efficiency gains associated with the promotion of competition among decentralized providers of public goods. Much research has been inspired by the work of Charles Tiebout (1956), according to whose simple market analogy, intergovernmental competition allows citizen land-owners to sort into communities that offer their desired levels of taxes and bundles of goods, thus allowing citizens a powerful preference revelation mechanism beyond voting and lobbying.[2]

In contrast to the above, the “Leviathan” theory (Hayek 1939, Brennan and Buchanan 1980) takes a less generous view of governments. Under centralization, Leviathan has monopoly power over the tax base and will extract

[2] For more detailed reviews of this literature see the contributions of Winer and Wildasin to this volume.

as much as possible given the constraint that people can withhold their labor if taxed too much. In contrast, under decentralization, politicians and bureaucrats must compete with one another over mobile sources of revenue, preventing them from lining their pockets and resulting in smaller and less wasteful government. This notion has been revisited by Weingast (1995) and Persson and Tabellini (2000), who view capital mobility under federalism as a way for government to commit not to over-tax capital or over-regulate the economy.

As pointed out by Winer's essay in this volume, the social planner model has not been a good starting point for empirical work. For instance, the actual vertical structure of tax authority in much of the world does not resemble the textbook solutions to the "tax assignment problem" in fiscal federalism theory, and intergovernmental grant programs are not limited to conditional, open-ended matching grants aimed at internalizing externalities (e.g. Inman 1988). Though preferences are difficult to measure and the causal mechanism difficult to identify, empirical implications of the Tiebout model are more amenable to testing (e.g. Brueckner 1982, Gramlich and Rubinfeld 1982). Even more empirically tractable is the simple version of the Leviathan hypothesis, which has received mixed support in U.S. and comparative studies (e.g. Marlow 1988, Zax 1989, Oates 1985).

III. Positive Political Economy: Rethinking institutions and politics

The classic economics literature yielded some testable positive claims, most of which linked federalism and decentralization to broad improvements in efficiency, giving the literature a strong normative flavor that found its way into policy debates. As decentralization and federalism spread around the world along with democratization in the 1990s, these claims seemed increasingly anachronistic in the face of subnational debt accumulation and bailouts among large federations and evidence of corruption and inefficiency associated with decentralization programs. Furthermore, cross-national empirical studies linked federalism with macroeconomic distress (Wibbels 2000, Treisman 2000b) and corruption (Treisman 2000a).

Though these experiences by no means constituted natural experiments for evaluating classical economic theories of federalism, they engendered a decade of scholarship aimed at rethinking federalism. It was not difficult to identify politics as the missing component in the prevailing literature. Leaving behind benevolent dictators and malevolent rent-seekers, the new literature takes more seriously the role of preference aggregation through voting and lobbying. Some of the recent contributions rely on the median voter framework, some on probabilistic voting models, and others on the citizen-candidate framework. Most derive insights from assumptions that politicians are primarily interested in maintaining and enhancing their political careers, either through reelection or movement to more desirable offices.

Thus political incentives—ranging from electoral rules to legislative organization and party structures—take center stage in the new literature, which draws on theoretical traditions developed to address legislative bargaining and principal-agent problems, and borrows liberally from concepts in industrial organization theory. A key theme is that like multi-layered firms, federations will not function effectively unless incentives are properly structured. Returning to the classic theme of *The Federalist,* the central challenge is how to structure incentives so that local politicians have strong incentives to collect information and serve their constituents, while minimizing incentives and opportunities to exploit common pool problems and undermine the provision of national collective goods.

Three themes stand out in this new literature—the nature of political representation, the structure of intergovernmental fiscal systems, and the organization of political parties.

REPRESENTATION

While the classic economics literature minimized the role of other institutions, political scientists have emphasized the role of such institutions as independent courts, legislatures, and requirements of super-majorities for constitutional changes. In most federations, provinces and their representatives are involved as veto players in the national legislative process, usually through an upper chamber that represents the units, and the logic of population-based representation is supplanted or complemented by the logic of territorial representation.

In the positive political economy literature, theorists and empirical researchers have picked up on the range of variation in modes of political representation and begun to explore its implications. One prominent strand of research attempts to improve upon the welfare economics literature by modeling central government decisions—especially concerning the distribution of intergovernmental grants—as bargains struck among self-interested, re-election seeking politicians attempting to form winning legislative coalitions rather than reflections on collective goods and the internalization of externalities. Inman and Rubinfeld (1997) review how central government finance of local public goods might yield a different distributive pattern if the legislature features an open agenda rule (Baron and Ferejohn 1989) than if it operates under a norm of universalism (Weingast and Marshall 1988). In the former case, 50 percent plus one of the jurisdictions receives funding, while in the latter case, all states receive the high-demander's preferred allocation.

Drawing on the citizen-candidate model of electoral democracy, Besley and Coate (2003) contrast distributive politics under "minimum-winning coalition" and what they call "cooperative" legislatures. In the former case, inefficiencies are created by misallocations of resources and uncertainty about who will be in the winning coalition. In the case of a cooperative legislature, inefficiencies emerge because voters strategically delegate by electing representatives with high demands for public spending. They also provide a new perspective on Oates' classic normative questions about the costs and benefits of fiscal centralization. If spillovers are high and localities prefer similar expenditures, a centralized system can produce good outcomes, but as spillovers decrease and localities are more heterogeneous, centralization becomes less attractive. In related work, Lockwood (2002) presents an extensive form bargaining game among legislators seeking projects in which spillovers affect the legislative outcome and again, the case for decentralization.

Dixit and Londregan (1998) consider the interaction of redistributive decisions made at the federal and state levels in federations, demonstrating different outcomes than would be achieved in a unitary system. Persson and Tabellini (1996) consider a model that contrasts decisions about social insurance that would be made by the same population under unitary-style majority rule versus federal-style bargaining among territorial representatives. If autarky is the threat point, bargaining yields less social insurance because relatively rich regions have more bargaining power. Majority-rule voting yields more social insurance because it allows for the formation of coalitions of poor voters across state boundaries.

Work by political scientists has explored the possibility that in contrast to majority rule, territorial bargaining and super-majority rules often allow groups making up a minority of the population, but with a strong attachment to the status quo (e.g. provincially-owned banks in Brazil and Argentina, slavery in the antebellum United States), to undermine reform efforts that would be favored by a majority (Rodden forthcoming, Riker 1964). Moreover, empirical work shows the extent to which the over-representation of small states, most often in the upper legislative chamber, distorts the allocation of resources in their favor (Gibson, Calvo, and Falleti 2004, Lee 1998, Rodden 2002).

INTERGOVERNMENTAL FISCAL STRUCTURE[3]

Drawing from the normative tradition, economists and political scientists alike have been keen to view federalism as a form of "dual sovereignty," whereby the federal government and states are sovereign over their own spheres of authority, and citizens can hold each separately responsible within their respective spheres (See Brennan and Buchanan 1980, Riker 1964). Yet case studies and systematic attempts at cross-national data collection reveal that in

[3] For a further discussion of fiscal institutions, see von Hagen (this volume).

most policy areas, at least two or three layers of government are jointly involved in funding, regulating, and implementing policies in federal and unitary systems alike. Rather than enhancing accountability and protecting liberty by neatly dividing sovereignty vertically, federalism can create a situation in which sovereignty is unclear and contested. To borrow from the vocabulary of industrial organization theory, federal constitutional contracts governing the assignment of taxes and expenditure responsibilities are incomplete—they are open to ongoing renegotiation and invite a variety of opportunistic behaviors.

When the ultimate locus of fiscal sovereignty is unclear, provinces can attempt to externalize their fiscal burdens onto one another. Rodden (forthcoming) argues that when the center is heavily involved in financing and regulating local governments, it cannot commit not to bail them out in the event of debt servicing crises, which under some conditions creates poor incentives for fiscal discipline ax ante. In a related literature, Careaga and Weingast (2002) present a simple model in which governments that raise their own revenue have incentives to provide market-enhancing public goods, while governments that rely heavily on revenue-sharing from the central government are more likely to use resources on patronage and rent-seeking. An important reason to choose public goods is that they will ultimately foster growth and push out the budget constraint, but this incentive is lost when these additional revenues flow to the common national pool rather than the local government. Weingast (2004) mobilizes case studies suggesting that periods of rapid economic development in federations featured self-financing subnational entities. Finally, returning to the

Leviathan model, Stein (1989) and Rodden (2003) find that the relationship between decentralization and the size of government depends upon the balance between local taxation and intergovernmental grants.

POLITICAL PARTIES

The recent focus on institutional incentives and variations among types of federalism and decentralization has ushered in a return to the central variable in William Riker's work on federalism—the organization of political parties. Riker (1967) asserted that the key requirement for a "balanced" federal system is the maintenance of a decentralized party system, where candidates for central government offices rely on provincial and local party organizations for nominations and campaign activities. Using some Latin American case studies, Garman, Haggard, and Willis (2000) assert that there is a correlation between limitations on the powers of the central government and decentralization of the party system.

Moreover, recent studies emphasize the organization of political parties when trying to answer current questions about the stability and effectiveness of federations. While Riker was concerned with identifying institutions that would combat centripetal forces in federations like the United States, Filippov et al. (2004) seek to explain what can keep centrifugal forces in check in federations like Russia. The answer, they argue, lies in the creation of integrated national political parties in which subnational politicians must rely on their central government co-partisans in order to achieve electoral success. Returning to the question of fiscal discipline discussed above, Tommasi et al. (2000) and Rodden (forthcoming) suggest that an integrated party system can also reduce the incentives of provincial governments to create negative externalities for the federation as a whole, and can help federations renegotiate faulty intergovernmental fiscal contracts.

IV. The next hurdle: Endogenous institutions

The central message in the new positive political economy literature is one that has been repeated perhaps to the point of banality in political science—institutions matter. Whether federalism in practice looks anything like federalism as envisioned in welfare economics or public choice theory depends on a host of other incentive structures. Yet for anyone asserting that federal institutions play a causal role in explaining outcomes—say democratic stability, macroeconomic success, or income inequality—a nagging problem is the knowledge that institutions themselves are responses to underlying social, cultural, or demographic factors. Thus the emerging political economy literature must deal more seriously with problems of endogeneity and selection.

Empirically, one can attempt to find instruments for federalism or apply matching techniques (see Diaz-Cayeros 2004), but the new political economy literature reviewed above no longer asserts a simple causal role for federalism per se. Its effects are now thought to depend on more specific aspects of federal design, including representative institutions, intergovernmental fiscal system, and parties. The remainder of this essay highlights some contributions to, and sizes up the problems and prospects for the nascent endogenous federalism literature, focusing on the same three themes as above.

REPRESENTATION

First, consider the endogeneity of representation schemes. Why do some countries end up with firm constitutional protections for states, like territorial upper chambers and super-majority requirements? Why are small territorial units over-represented in some countries and not in others? These questions direct attention to bargaining games that take place at key moments of institutional design or reform, and invite a broad historical approach that compares events as seemingly diverse as Philadelphia in 1787, the recent EU Constitutional Convention, and high-level intergovernmental meetings about constitutional reform in Argentina or Canada.

The simplest story is that at the time of the initial federal bargain, small states—or states dominated by ethnic or linguistic groups that are minorities in the federation as a whole—will only sign on if they receive credible institutional protections against exploitation by large or ethnic majority states. Another possibility—not yet formalized in the literature but consistent with casual empiricism—is that at moments of constitutional design, the wealthy elite favor a strong upper chamber that over-represents rural, conservative areas, creating a buffer against the demands of urban labor.

Cremer and Palfrey (1999) present a model in which choices over the level of centralization, and between population- and territory-based forms of representation are made by strategic actors who anticipate the policy consequences of their choices. In addition to conflicts between voters in small and large states (under centralization, voters from large states choose population-based representation, while voters from small states prefer unit representation), they model conflicts between moderates and extremists on a single left-right dimension, and consider interactions between the two axes of conflict. One of the key results is the proposition that since centralization mitigates policy risk, moderates prefer more centralization than extremists.

INTERGOVERNMENTAL FISCAL ARRANGEMENTS

Income distribution is at the heart of another new endogenous federalism literature that attempts to explain cross-national differences and within-country shifts in the locus of tax power. A key argument in the new political economy literature is that the distribution of taxing and spending powers has important implications for the performance of federations, yet little is known about the determinates of tax centralization. For Boix (2003), instituting federalism with a decentralized locus of decision-making over taxation and redistribution is a technique for holding countries together in the face of uneven inter-regional income distribution. Decentralized taxation reassures rich regions that their wealth will not be expropriated by poor regions. In the same spirit, Bolton and Roland (1997) present a model in which decisions about the relative (de)centralization of tax-transfer decisions is driven by strategic actors who understand that shifting to a different locus of decision-making shifts the location of the median voter in the income spectrum, and hence the overall level of redistribution. For instance, the median voter in a relatively poor state with a highly skewed income distribution would not favor union with a wealthier state if its income distribution is sufficiently even that equilibrium redistribution would be lower in the new federation.

Future research might fruitfully combine the median voter logic with an economic geography approach recognizing that industrialization is often accompanied by agglomeration economies and pronounced income differences between the industrializing center and the poorer, largely agricultural periphery. In most decentralized fiscal systems the median jurisdiction is much poorer than the mean, implying that the majority of states want centralized taxation and distribution while the few wealthy states want to maintain decentralization. Thus in the long run, decentralized taxation with a weak center may be difficult to sustain as a political equilibrium when wealth is highly concentrated in one or two jurisdictions.

Once tax centralization has been achieved, this logic explains why it is often so stable. While the Italian North and wealthy German states like Baden-Württemberg and Bavaria are demanding tax decentralization, they are clearly outnumbered by jurisdictions—home to a majority of the population—that benefit from the status quo redistributive tax-transfer system. However, even if the wealthy regions with preferences for decentralized taxation are outnumbered, they may be able to limit centralization if they are in a position to make credible secession threats, as in Belgium and Spain—the two European countries that have made the boldest recent moves toward increased subnational tax autonomy.

All of these stories about the distribution of income and preferences are based on very simple theoretical frameworks that assume one (redistributive) dimension and rely on the median voter. The same is true of a new literature that views the assignment of responsibilities in a federation as emerging naturally from the underlying distribution of preferences over public goods (e.g. Cremer and Palfrey 2002; Panizza 1999). Politicians' preferences are identical to those of their voters, and agency problems and careerist politicians are not yet part of the picture. Nor are the roles of potentially cross-cutting ethnic and linguistic cleavages. The empirical record of such simple median voter models is sketchy. Above all, future theory work should consider the possibility that players in constitutional choice games do not simply reflect the preferences of their constituents. For instance, O'Neill (2003) argues that in Latin America, decentralization is an attractive strategy for central government politicians not when it satisfies voters' preferences on any issue dimension, but when support in future subnational elections appears to be more secure than in national elections, often because of investments in local patronage networks.

Moreover, perhaps the most vexing challenge in this literature is to identify the direction of causality (Beramendi 2003). On the one hand, income inequality might shape the form that federalism takes when institutions are designed, or create pressures that stabilize or unravel existing arrangements. On the other hand, if federal institutions are sufficiently stable and resistant to reform, federal institutions shape long-term inequality. For instance, a decentralized tax system might prevent redistribution if it fosters tax competition and allows the wealthy to cluster in homogeneous jurisdictions or, according to a large literature summarized in Obinger, Leibfried, and Castles (2005), status quo bias may have caused welfare states to expand more slowly in postwar OECD federations than among their unitary neighbors.

POLITICAL PARTIES

Unfortunately, political scientists are no closer to resolving an endogeneity problem related to the organization of political parties, even though the question has been on the agenda since the 1950s. Riker (1964) insisted that the decentralization of political parties drives administrative and fiscal decentralization, and more recently, Garman et al. (2001) concur. Yet Chhibbher and Kollman (2004) argue that administrative centralization drives party centralization. It is difficult to judge the direction of causality since within countries, centralization in the party and the fiscal systems often take place simultaneously. Diaz-Cayeros (forthcoming) argues that in Mexico, elites interested in creating a nation-wide common market and an integrated system of taxation found it difficult to commit not to expropriate the resources and patronage that sustained rural elites. A hegemonic party, the Institutional Revolutionary Party (PRI), emerged as a commitment device that promised rural elites a guaranteed flow of resources in the future. In this story, neither tax centralization nor party centralization caused the other, but both emerged as part of a pact among self-interested elites. The relationship between geography and the nationalization (or fragmentation) of economies and party systems remains one of the most intriguing and wide-open research areas in comparative political economy.

V. Conclusion

There has always been a peculiar relationship between positive and normative approaches to federalism in economics and political science. *The Federalist* had a normative agenda: propaganda to support a constitutional proposal that the authors viewed as quite flawed. In order to make their normative case in favor of a second-best solution, however, they undertook serious positive analysis—both in terms of abstract deductive theory and inductive analyses of previous experience with federalism around the world. Their assumptions—above all that “men are not angels”—and their approach—what they called “a science of politics”—produced a set of writings that became the foundation for the modern positive political economy literature in spite of its thinly veiled normative agenda.

The welfare economics approach assumes that men are indeed angels and asks how such angels would set up a federation, but then moves rather awkwardly to the examination of positive empirical hypotheses. A prominent strand of public choice theory does not attempt to veil its conservative normative agenda, assuming that men are devils, seeking to design federations that will constrain them. The political science literature often comes from a normative starting point that federalism is beneficial or—in large or divided societies—simply necessary—and seeks to establish conditions under which it is stable. Yet the most celebrated contribution to this literature, William Riker’s 1964 book, after charting a rigorously and dispassionately positive course, was shaped by the American civil rights movement and ended with the rather jarring conclusion that American federalism was primarily about institutionalizing racism.

The new wave of "positive" literature that reintroduces politics and institutions still has strong normative content. It has moved beyond simple questions about whether federalism is good or bad, but much of the literature is still motivated by a normative question about the conditions under which federalism and other forms of multi-tiered government work well or fail. This is certainly appropriate, given the importance of questions related to federal design for peace, political stability, and economic well-being around the world. The new literature shows that federalism can have a wide variety of effects, depending upon its design and the institutions and social structures with which it is combined. Above all, the new literature is beginning to establish trade-offs. Federalism might be viewed as working well or badly in a particular society depending on one's normative perspective. For instance, a highly decentralized system of taxation might create good incentives for local fiscal discipline and warm the hearts of fiscal conservatives, yet it may seem to progressives like a scheme to preserve inequality and marginalize the poor. Likewise, institutions that facilitate stability or fiscal discipline might undermine accountability.

Ideally, some of the emerging trade-offs would help guide institutional designers in Brussels, Brasilia, or Baghdad. But better answers are needed to a more basic, purely positive set of questions—how is it that federations come to be structured the way they are? Can institutions be tweaked and outcomes changed, or are they epiphenomenal? Such debates often take on a frustrating theological tone of predestination versus free will, but as always, the largest and most difficult questions are the most pressing. Hopefully the next generation of research on federalism will not shy away from them.

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