Fiscal Federalism and National Unity

Richard M. Bird and Robert D. Ebel

Abstract

An important characteristic of many countries is that they exhibit, to greater or lesser degrees, some "asymmetry" in the way in which different regions are treated by their intergovernmental fiscal systems. This paper explores some of the varied extents and manners in which such asymmetrical treatment may help or hinder the maintenance of an effective nation-state, where "effectiveness" encompasses both how effectively, efficiently, and (perhaps) equitably public services are provided throughout the national territory and also the effects asymmetry may have on the very existence of "fragmented" nation-states.

Key words: federalism, decentralization, asymmetry, subsidiarity

JEL codes: H70, D74

Fiscal Federalism and National Unity

Richard M. Bird and Robert D. Ebel

Belgium, Bosnia-Herzegovina, Canada, People's Republic of China, Germany, India, Indonesia, Iraq, Philippines, Russia, Spain, Sudan, Switzerland—what can this diverse set of countries possibly have in common? One important answer is that each contains within its boundaries a significant territorially based group of people who are, or who consider themselves to be, distinct and different in ethnicity, in language, in religion, or just in history (ancient or recent) from the majority of the population. Indeed, contrary to the common view—one might say mythology—that the most "natural" nation-state is a unified and homogeneous entity, such "fragmented" countries (Bird and Stauffer, 2001)[1] are found throughout the world. Homogeneous nations are more the exception than the rule. Indeed, heterogeneity, whether ethnic or economic, is a more common feature of most countries than homogeneity.[2] A second important characteristic of many countries is that they exhibit, to greater or lesser degrees, some "asymmetry" in the way in which different regions are treated by their intergovernmental fiscal systems. While such asymmetry is often most obvious in formally federal countries, it comes up, sometimes in surprising ways, in almost every instance. This paper explores the varied extents and manners in which asymmetrical treatment helps (or hinders) the maintenance of an effective nation-state.

"Effectiveness" in this context may be understood in two ways. The first relates to the normal focus of economic analysis of public sector activities: How effectively, efficiently, and (perhaps) equitably are public services provided throughout the national territory? The second meaning, however, lies well outside the normal field of expertise of economists: What are the connections between how a country's public finances are structured and how a nation-state that is fragmented holds together in the first place? This question has risen to the forefront of public policy analysis in an especially important way when it comes to creating "new" countries out of regions torn by civil conflicts, such as those in Bosnia-Herzegovina and Sudan. But it is also much on the minds of those concerned with public policy in such long-established countries as Belgium, Canada, and Spain.

In many fragmented countries, it is not surprising that the majority group dominates politically. Sometimes, a particular minority exerts more influence, perhaps because of its wealth and power, perhaps owing to historical factors. Occasionally, as may be argued to

---

University of Toronto and Urban Institute, respectively. In Ahmad, Ehtisham and Giorgio Brosio, eds. Handbook on Federalism,(Washington, DC, USA: International Monetary Fund, forthcoming)

[1] Bird and Stauffer (2001) contains the proceedings of a conference held in February 2000 in Murten, Switzerland on this topic, organized by the World Bank Institute in collaboration with the Institute du Federalisme of the University of Fribourg. .

[2] Alesina et al. (2002) develop a parallel concept of "fractionalization". Fractionalization is an index that measures a country's ethnic, linguistic and religious mix. Fragmentation emphasizes the territorial dimension of ethnic or other differentiation.

be the case even such large federal countries as the United States and Brazil, important overriding factors may suppress much or all of the potential political influence of ethnicity.[3],[4] Even in countries such as Argentina, Brazil, and Germany, in which most people are ethnically and linguistically homogeneous, the economic situation of different regions may be extreme, ranging from large, rich metropolitan areas to remote, impoverished settlements, or to regions rich in petroleum or other highly-valued natural resources vs. others with little but an expanse of barren lands. Such problems may become more pronounced when regions are dominated by people of a different ethnicity from the majority of the population, and may become bitterly contested when ethnic and economic factors combine, but such problems are by no means confined to countries with this combination of characteristics.

Some potentially fragmented countries have—often through a prolonged historical process, sometimes including civil wars—reached an equilibrium in which their political, fiscal, and institutional structure balances the diverse forces and sustains the maintenance of an effective national state.[5] Switzerland, the U.K., and the U.S. in different ways provide examples. Others, however, remained in turmoil and then fell apart under such pressures—e.g., the "formers"—Czechoslovakia, Yugoslavia, Union of Soviet Socialist Republics. And the integrity and effectiveness of other countries, even such long-established and prosperous countries as Belgium, Canada, and Spain, remain under constant threat. In recent years such pressures have increased in many such countries in part because of globalization and the related (but not fully consistent) phenomenon of new regional economic unions—the European Union (EU) and the North American Free Trade Agreement (NAFTA)—that have upset the established balance of wealth and power and hence called into question the desirability and sustainability of some established nation-states.

In part in response to such factors, decentralization is on the leading edge of policy. Developed countries, developing countries, transitional countries, federal countries, and unitary countries—wherever one looks some kind of decentralization is to be taking place, or is at least being discussed. But what, exactly, is going on? And why is it going on? A variety of rationales and institutional arrangements can be, and are, encompassed under the label "decentralization."

[3] Even with respect to the United States (broadly conceived there are many "asymmetrical" relationships: for example, Puerto Rico. Indeed, Elazar (1957) identified 2 "federacies", 3 "associated states", 3 "home-rule territories", 3 "unincorporated territories," and 130 distinct First Nations with asymmetrical relations to the United States federal government.

[4] For a brief overview of the racial and economic diversity of Brazil, see Avelar (1999); Affonso (2001) provides a useful recent review of decentralization and reform in Brazil. Watts (1999) provides a useful categorization of different forms of 'association' between territories.

[5] For a discussion of the role played by fiscal factors in sustaining political equilibrium (with particular reference to Latin America), see Bird (2003). Winik (2002) in his brilliant account of the resolution of the American Civil War provides an excellent reminder of how precarious the political balance may be at critical moments in a country's history.

What Is Decentralization?

Some of the confusion that prevails about decentralization arises because this term can, and does, mean very different things to different people. [6] Sorting out of these differences is important to framing the discussion of the potentially reinforcing relationship between nation-state solidarity, subsidiarity, and intergovernmental asymmetry. [7]

Political decentralization in the sense of devolving decisionmaking power to locally elected officials, for example, is not the same as, nor necessarily associated with, *administrative decentralization*—and the reverse is also true. Administrative decentralization may simply redistribute responsibilities among different ministries of the central government, up to and including the creation of moderately autonomous field administrations. This process is sometimes referred to as *deconcentration*. Deconcentration does not place any political decisionmaking power in the hands of locally representative bodies and hence is unlikely to give rise to serious intergovernmental conflicts. Similarly, if the full administrative responsibility for particular functions has been fully devolved to local governments, such conflict should not arise in principle. The same might even be true with apparently full political devolution if regional and local governments as a rule remain dependent to a large extent on central financing. Even allegedly independent subnational governments are often subject to a certain degree of central influence, monitoring, and, in some instances, control. It can thus be hard in practice to distinguish some forms of devolution from *delegation* in which the major feature is that the system of subnational government can be characterized as that of a principal-agent relationship. [8]

To add to the prevailing confusion in most countries, decentralization, whatever form it takes—including that of substantial devolution whereby subnational governments are independently established and have responsibility for the authority to impose taxes and finance services—need not, and indeed usually does not, occur evenly across the board. Some activities, or parts of some activities, may be deconcentrated, delegated or devolved to some degree or another. Others may not. Expenditures may be more decentralized than revenues, or the reverse may hold. Some transfers may be much more heavily 'conditioned' by central government than others. Borrowing may, or may not, be tightly controlled. Understanding, measuring, and analyzing the extent and nature of decentralization in any country is far from simple (Ebel and Yilmaz 2003).

---

[6] The present discussion focuses on fiscal decentralization. While we note the relations between fiscal, administrative, and political decentralization, this subject is not discussed in detail here: for further discussion, see, e.g., Rondinelli, Nellis and Cheema (1983) and Bird, Ebel, and Wallich (1995).

[7] The term "subsidiarity" is drawn from the *European Charter of Local Self-Government*, which provides that "public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy". . Council of Europe Committee of Ministers, *European Charter of Local Self Government*, Recommendation No. R(95)19, On the Implementation of the Principle of Subsidiarity , Adopted by the Committee of Ministers on 12 October1995 at the 545th meeting of the Ministers' Deputies).

[8] Bird and Chen (1998), however, note the sharp contrast between delegation (provincial-local) and devolution (federal-provincial) in Canada.

Why Is Decentralization Occurring?

However decentralization may be defined or understood, why is it occurring? The evidence is mixed with respect to all of the traditional rationales for decentralization found in the conventional economic literature on fiscal federalism: e.g., efficiency and responsiveness, "place" equity between rich and poor, growth, and stability.[9] There are different degrees of merit to each of these, and once the initial political decision is made to adopt a policy of sorting out fiscal roles and responsibilities among governments, accomplishing these economic goals matters very much. [10]

But for fragmented societies, the political aspect may be all that matters, at least in the initial stages of change. Chechnya, East Timor, Kosovo, Moldova, Sri Lanka, Macedonia, and Sudan—the list of territorially based ethnic minorities taking up arms against the nation-state (and/or each other) is long. It is thus not surprising that some countries have tried to preempt such pressures in part by decentralizing some activities.[11] When a country finds itself deeply divided, especially along geographic or ethnic lines, decentralization provides an institutional mechanism for bringing opposition groups into a formal, rule-bound bargaining process. Thus, decentralization may (i) sometimes serve as a path to national unity (e.g., Canada, South Africa, Switzerland and Uganda);[12] (ii) it may be seen to offer a political solution to civil war (Bosnia-Herzegovina, Sri Lanka, Sudan);[13] (iii) it may serve as an instrument for deflating secessionist tendencies (Bosnia-Herzegovina, Ethiopia, Spain), or formally forestalling the decision as to whether or not to secede (Sudan);[14],[15] (iv) it may attempt to achieve a similar aim by conceding enough power to regional interests to forestall their departure from the republic (Canada, Russia, Spain);[16] or (v) it may be used, to, in effect to co-opt "grassroots support" for central policies (Colombia, maybe China).[17]

---

[9] Some assert that the literature can be characterized as a "curious combination of strong preconceived beliefs and limited empirical information" (Litvack, Ahmad, and Bird, 1998,3)

[10] See World Bank (2000) for citations to the relevant literature, much of which is also reviewed in Bird and Vaillancourt (1998).

[11] See Esman and Herring (2001) for detailed consideration of the role that development assistance may play in exacerbating, or alleviating such pressures.

[12] The South African case is discussed in Ahmad (1998), Simeon and Murray, (2000), and Bahl and Smoke (2003). Bahl (1997) discusses Uganda.

[13] Welikala (2003) provides a recent consideration of the fiscal aspects of decentralization in Sri Lanka.

[14] The Machakos Protocol of 10th July 2002 , which is embedded in the Final Peace Protocol of January 16, establishes a half year "Pre-interim" period following the peace signing, followed by a six (6) year "Interim Period" after which the people of South Sudan shall participate in an internationally monitored referenced, to "confirm the unity of the Sudan by voting to adopt the system of government established under the Peace Agreement; or to vote for Secession."

[15] For another, very different, case of attempting to construct a new government from a scattered (though not ethnically diverse) population, see Ford and Litvack (2001) on West Bank-Gaza. On Ethiopia, see World Bank (1999).

[16] See also Treisman (1998) and Martinez-Vazquez and Boex (2001).

[17] This list, and most of the country examples, come from World Bank (2000, 207-08). For a quite different version of the Colombian case, see Bird and Fiszbein (1998) and Acosta and Bird (2005).

The Trade-offs of Decentralization

Whatever one thinks of these particular arguments, whether decentralization in any of its myriad forms helps or hurts political stability is clearly a key question in many countries. It seems unlikely, however, that anyone can answer that question in the abstract. As in the case of the economic arguments for and against decentralization, something like the Scottish legal decision of "Not Proven" is perhaps the best that can be offered at present with respect to such political arguments. Nonetheless, it is clearly political factors that are leading even long-centralized countries like the United Kingdom to decentralize (particularly with respect to Scotland). Similar decentralization to varying degrees can be seen in many other countries—for example, Italy (South Tyrol), Finland (Aland Islands), and even France (Corsica). Ethnic groups in countries as different and distant as China (Tibetans and Uighurs), Iraq (Kurds), Turkey (Kurds), Nigeria (Ogoni), and Georgia (Abkhaz and Ossetians) are seeking similar (or greater) territorial autonomy.

Whether the result of greater decentralization in response to such pressures is likely to be political stability or increased instability is far from clear. Certainly there are many past examples of instability and then dissolution, such as the (once) Federation of the West Indies, Rhodesia and Nyasaland, Yugoslavia, Pakistan, Czechoslovakia, and the USSR (Watts 1999). Nonetheless, there are also counter-examples where decentralizing policies may be argued to be one factor holding together countries that might otherwise have fragmented: Belgium, Canada , India, and Malaysia.[18] Annett (2000), who focuses on countries in which he concludes budgetary institutions are too weak to support increased intergovernmental transfers, suggests that how successful such attempts are may in the end depend upon the ability of such nations to deliver higher levels of public goods and services. As yet, however, the empirical evidence in support of such propositions remains tenuous.

An additional important political concern is that decentralization may unduly restrict the ability of a country to take decisive action in the face of crisis. While most commonly manifested in the form of concerns about stabilization policy (Tanzi 1996), the problem is more general. There is, some argue, a fundamental trade-off in any country between the extent to which its political system represents different local points of view and its capacity for effective political action in the face of economic crisis. In the same circumstances, some degree of decentralization may, be needed to maintain the nation-state, but, then, too much decentralization might render that state ineffective in coping with crisis. While it may be argued that such apocalyptic conclusions seldom pay sufficient attention to the all-important details of precisely how decentralization institutions are designed and implemented, the effect of fiscal decentralization on stabilization policy remains unresolved.[19]

Another concern is the fact that the trade-off between effectiveness and decentralization also manifests itself with respect to redistributive policy, whether interregional or interpersonal. It is not by chance that the welfare state was a centralized

[18] For a discussion of Belgium, Canada, and India see Bird and Ebel (2005). For some discussion of the Malaysian case, see Holzhausen (1974) and Mahbob et al. (1997)

[19] For a book-length review focusing on the macroeconomic aspects of decentralization, see Rodden, Eskeland, and Litvack (2003).

state because only at the national level could the interests of the disadvantaged receive sufficient weight to overcome the influence of local elites (Wilensky 1975). To the extent that effective decentralization implies local autonomy in revenue and expenditure policy, there may be an inherent conflict between subsidiarity and solidarity, between local autonomy and national redistribution. Yet the precise terms of any such trade-off, and the related question of whether there is a 'breakpoint' beyond which a country can have both a high degree of local political autonomy and at the same time an effective social net, depend upon too many details of local institutions and circumstances to permit easy generalizations.

The incorporation of the much poorer eastern regions may, for instance, have pushed Germany closer to this breakpoint (Spahn and Werner 2005). If even a country as essentially homogeneous as Germany has a point beyond which those in richer regions are not prepared to expand their "span of concern" (Breton and Scott 1978) to encompass those in poorer regions within their distributive concerns, other countries—in Europe, the case of Belgium comes to mind[20]—may perhaps reach such a point at considerably lower levels of redistribution. The redistributive question is particularly difficult because it encompasses both interpersonal and interregional redistribution. Canada has to some extent bypassed this problem at the provincial level by carrying out most interpersonal redistribution at the federal level, but, it too faces the problem of group versus individual redistribution with respect to its large aboriginal population (as does Australia).[21]

Fiscal Decentralization: Glue or Solvent?

Whatever its rationale or form, decentralization has often changed the fiscal structure of the state and hence may be expected to affect the nature and scope of state activities. Often, the most disputed questions with respect to decentralization are fiscal: who gets what, and who pays for it? Such fiscal changes may feed back upon and strengthen—or weaken—the political and economic pressures leading to decentralization in the first place. A key question is thus the nature and strength of the interactions in fragmented countries between changes in intergovernmental fiscal relations in response to changing economic and political factors and the continued maintenance of (or the creation of) an effective public sector. Under what conditions does increased subsidiarity foster solidarity, and under what conditions might increasing the autonomy of subnational governments have the opposite result of fostering not national integration but perhaps the disintegration of a nation? When, that is, is decentralization glue that holds countries together, and when is it a solvent that may result in their disintegration?

The key fiscal aspects of decentralization are five: (i)Who determines who gets what revenues? (ii) Who is responsible for what expenditures? (iii) How do intergovernmental transfers work? (iv) What degree of freedom do subnational governments have with respect to borrowing? and (v) Who determines the institutional setting within which the preceding questions are answered?

[20] See Bayenet and de Bruycker (2005).
[21] The aboriginal question in Canada is discussed extensively, from very different perspectives, in Cairns (2000) and Flanagan (2000). For Australia see Lane (2003).

The fiscal rules that the literature on this subject suggests should bind the various players in the intergovernmental game—if the outcome is to be the efficient and responsible provision of public services in an equitable and stable way—include such things as clear expenditure assignments, giving responsibility for determining the *rates* of some major revenues to subnational governments, and distributing transfers by a pre-determined formula (see, for example, Bahl 2002; Bird 2001, Ebel and Taliercio 2005). Properly designed, an intergovernmental fiscal regime set up along these lines in effect imposes a hard budget constraint on subnational governments and hence provides the appropriate structure of incentives to ensure economically efficient outcomes.

The transfer system may also provide a combined sense of national-solidarity and "place equity" through a well-designed system of central-subnational transfers. Thus conditional grants can address projects that confer benefits that are national and or regional in scope, and unconditional grants can address issues of both vertical and locational equity (Ahmad 1997). In addition, to ensure macroeconomic stability, subnational borrowing may initially have to be constrained by hierarchical controls, although in the longer run it should ideally become subject primarily to the discipline of the capital markets (Rodden, Eskeland, and Litvack 2003, Petersen 2005).[22] And finally, to make the whole system work, not only must the central government itself keep to the rules, but there should be an adequate institutional structure to ensure the development of sufficient local capacity, provide for periodic adjustments to meet changing circumstances, and serve as a forum for the resolution of the disputes that inevitably arise in any functioning intergovernmental system (Bird 2001).

Such rules do not, however, describe reality in most countries. Moreover, the relation of such institutional rules to the political issues that appear to motivate much of the current concern with decentralization seems to be, at best, remote. How may this gap be closed?

Asymmetric Decentralization

One way to close the gap between theoretical prescriptions and institutional reality is by taking into account some important aspects of the decentralization story that are not encompassed in such simple rules and then considering how in practice the rules have often been bent to varying degrees to accommodate such deviations (Agranoff 1999). Rules such as those found in much of the economic literature explicitly recognize only one element of the heterogeneity that characterizes most countries in the real world, namely, that some territorial units are richer than others. They neglect the important role played by ethnic, linguistic and cultural differences in explaining the nature of political institutions in many countries. Some of these differences—such as language-specific

[22] While there might be some asymmetrical aspects with respect to macroeconomic equilibrium, it is not clear either analytically or empirically whether small or large subnational governments are most likely to breach macroeconomic balance. The case for the former is that they are more susceptible to external shocks and are cheaper to bail out (Pisauro 2001), while the case for the latter is that they are "too big to fail" in the sense of the negative externalities if they do so, with the result they may thus be able to expect to be bailed out and hence able to get away with worse behavior (Wildasin, 1997).

investment in human capital—can be readily placed in a purely rational economic framework (Vaillancourt 1992), but others, such as the different perceptions of history and current reality held by different groups, cannot.

Nonetheless, countries containing diverse groups, particularly those that are territorially concentrated, need to find some way to work together if they are to provide public services effectively. In this connection, the extent and nature of tolerable or necessary asymmetry becomes a key issue.

Traditionally, in part perhaps because symmetrical constitutional status for all basic territorial units was the norm in such 'classic' federations as the United States, Switzerland, and Australia, most discussion of federalism—and indeed often of decentralization more generally—has implicitly assumed that symmetry was the rule. In fact, even in the most classical federal countries there has always been some formal asymmetry (the District of Columbia and the territories in the U.S., for example, and the Northern Territory in Australia). In many other federations, as Watts (2000) emphasizes, there has been a degree of formal constitutional asymmetry from the beginning—for example in Canada, India, Malaysia, Spain, Belgium, and Russia.[23] Indeed, even such traditionally unitary countries as the United Kingdom, which has always included distinctly different regimes for Northern Ireland, the Isle of Man, and the Channel Islands, have moved in the direction of still greater asymmetry in recent years.

When examined closely, virtually every country, federal or unitary, large or small, appears to offer some evidence of asymmetry in practice—between rich and poor, urban and non-urban, capital cities and frontier territories, and territorial or non-territorial groupings based on race, religion, or language. In this manner, asymmetrical decentralization illustrates the adaptive nature of political institutions: it may be imposed from above, agreed to by all parties, or optionally chosen by particular communities.

Such asymmetrical arrangements may arise for (i) political reasons to diffuse ethnic or regional tensions; (ii) efficiency reasons as to achieve better macroeconomic management and administrative cohesion; and/or (iii) to enable subnational governments with differing capacities to exercise the full range of their functions and powers (Congleton 2005; Wehner 2000). The first type of asymmetry, *political asymmetry,* is clearly driven by non-economic concerns, while the latter two are consistent with an administrative "top-down" approach to decentralization and might, for example, be implemented bilaterally through a staged (or contract) approach under which those units that met certain standards (size, budget, institutional development) would be granted greater autonomy than others.[24]

Such *administrative asymmetry* might be applied either on a discretionary basis or, more desirably (to reduce the scope for short-run political maneuvering), in accordance with some predetermined rules. Either type of asymmetry might be transitional or permanent in nature and might have functional as well as financial manifestations.

---

[23] As Dafflon (2005) shows, even the Swiss have, in their usual deliberate and pragmatic way, gradually introduced many asymmetrical elements into their system of fiscal federalism. See also Basta and Fleiner (1996) and Stauffer (2001).

[24] For an example of such an approach in Colombia with respect to education, see Bird and Fiszbein (1998).

Asymmetry might be established constitutionally or by statute (*de jure*) or simply by administrative practice or political agreement (*de facto*). It may be manifested through different degrees of autonomy or powers, through different degrees of representation in federal (or central) institutions, or through differential application of central laws (the January 2005 Sudan Peace Accord reflects all three of these manifestations). Asymmetry might be confined to peripheral units (such as the various types of territories in the United States) or it might apply to some of the principal constituent units of the country, as in Canada and Spain, for example.[25]

In fiscal terms, asymmetry may be manifested in differential direct central spending patterns, in differential central taxes, in differential subnational functional or revenue responsibilities, or in differential transfers. It may result in more or less equal treatment in certain respects. It may improve or worsen the efficiency and effectiveness of the public sector as a whole, for example, improving or worsening the uniformity of service delivery or macroeconomic balance. And, critically, it may sometimes strengthen, and sometimes weaken, the allegiance of differentially treated communities to the nation-state as a whole. Outcomes may vary with the relative size and strength of the units affected, the precise nature and extent of their fiscal autonomy, the structure of intergovernmental transfers, the manner in which regional interests are represented in both central and intergovernmental political institutions, exactly how the regional and national party systems work, and many other factors.

For example, consider the important role played by linguistic and cultural differences in explaining the nature of Canadian fiscal federalism. To some extent Canadians may perhaps be thought of as two peoples divided by a misunderstood word—"sovereignty" (Simeon 2000). To English Canadians, sovereignty tends to be interpreted in its classical sense of a fully independent state. To many Quebeckers, on the other hand, the term evokes not a black-or-white, or in-or-out meaning, but rather a fluid concept of a sense of national identity, and a sense that this is a community with a right to make a choice. Such differences in perception are dangerous and may result in outcomes not really desired by either group. Canada is by no means the only country suffering from such communication difficulties.

Of course fragmented societies will not necessarily become more coherent simply by ensuring that everyone really understands what everyone else wants. There may be real and fundamental conflicts that are not resolvable without major political concessions by one side, or perhaps by both. Improved information and communication, like any other possible solution to the perceived problems of fragmented societies, may help. Or it may hurt. Once again, it depends. As the tortured recent history of the Balkans shows clearly, bygones are never bygones if (some version of) history, however distorted, remains alive in the minds of significant groups of the population and motivates them to political action.[26] As much recent analysis suggests, and contrary to a key assumption in

[25] See Watts (2000) for extensive discussion of all these possible classifications, with examples. The Spanish case is particularly interesting: see Garcia-Mila and McGuire (2005), Castells (2001), Vinuela (2001), and Ruiz Almendar (2002) for recent discussions.

[26] There can be few more telling political slogans in this respect than the slogan displayed on every automobile license place in the province of Quebec: the motto of what was once "la belle province" has,

much economic discussion, ethnic identities and loyalties are not constants, but are rather subject to dynamic formation (and reformation) and may often be as much "state-cued"—that is, developed in response to policies and pressures—as they are in any sense 'given' or inherent (Esman and Herring 2001).

In the face of emotionally laden symbolism fiscal rationality may seem an irrelevant concern. Nonetheless, though communication alone cannot do the job of achieving the consensus or trust that is the essential ingredient of any democratic polity, it is clear that unless all major players in the political game communicate in the sense of getting the right information to the right people at the right time, outcomes that will be both politically relevant and administratively feasible are unlikely to emerge. One important role of fiscal institutions is to deliver the message of transparency and accountability (Kopits and Craig 1998). But whether the message will be received and acted upon will, as always, depend upon whether other institutions allow the message to be heard (Addison 2003).

Thus, as a minimum condition for operating an effective nation-state, it seems clear that countries containing diverse groups, particularly those that are territorially concentrated, need to find some way for these groups to work together if they are to provide public services effectively. Again, consider Canada where over the years, several approaches have been employed for this purpose, ranging from formal constitutional amendments through changing judicial interpretation of the constitution, so-called "executive federalism" and formal intergovernmental agreements, to, of course, the use of federal funds for both direct spending and intergovernmental transfers. At some points, each of these approaches seems sometimes to have helped; at others, each appears to have exacerbated matters. On the whole, by changing the mix of instruments and policies employed, Canada has up to now managed quite well, although it is not at all clear that it will be able to continue to muddle through without considering more fundamental political changes (Bird and Vaillancourt 2005).

For instance, an important question that has constantly emerged, and which appears to resonate much more widely, relates to the underlying rationale and acceptability of asymmetry.[27] Thus, Quebec is not a province *comme les autres* in a number of important ways. Over time, this difference has been recognized by the creation of a number of asymmetries in Canadian political and fiscal institutions. Nonetheless, as in other countries there remains an inherent tension between the common view that namely, that all provinces should be treated equally before the law, vs. such asymmetrical arrangements.[28] Such tension exists even if asymmetry can be argued to be necessary not only to maintain the integrity of the nation-state but also to ensure that the intended results of national policies are in fact achieved in the different circumstances of different regions.

---

since the rise of separatist sentiment, become "je me souviens." For an idiosyncratic but telling consideration of this and many other relevant issues, see Saul (1997).

[27] In the context of the European Union, essentially the same issue is often discussed under the label of 'variable geometry,' or the extent to which and the time span within which different member states take part in different aspects of EU policy (e.g. monetary union or defense).

[28] A recent example relates to the regulation of financial markets, as discussed in Vaillancourt and Bird (2005).

Whether viewed in political or economic terms, the nature and effects of asymmetrical fiscal policies can best be understood in terms of the concrete and specific circumstances of each country. Only then can it be seen whether such differentiation has made maintenance of the nation-state and the effective provision of public services more feasible—that is, has, as it were, acted as glue to hold the state together, or whether on the contrary regions that are treated differently decide to go further and opt out completely so that the intended glue has become a solvent. The most important questions about asymmetrical decentralization thus relate to its effect on the dynamics of political equilibrium, something that appears to be very context-dependent and not easily reducible to simple generalizations. A particular concern in this respect in recent years in a number of countries relates to the much discussed reinforcing relationship between decentralization (localization) and globalization (World Bank 2000).

Regionalization, Institutions, and Globalization Decentralization

Asymmetrical policies may sometimes be required to elicit uniform responses to central policies from differently advantaged regions.[29] Similarly, differentiation may seem needed to soothe disaffected regions sufficiently to maintain political stability, even if doing so risks increasing the disaffection of those regions that see themselves as paying the price of such special treatment. The economic and political factors giving rise to such policies have been accentuated in recent years by the phenomenon of globalization in many countries.

While just what globalization means and the extent to which it has increased remains in much more dispute among scholars than casual readers might expect, the fact that the world has changed enormously over the last century is clear. Empires have risen and fallen. New countries have been created. Old countries have disintegrated. Wars have been fought. Population has soared. Living standards have risen enormously for many and technology has changed the world in many respects. Much has been said and written recently about the resulting "new economy." However, much less has been said about the "new polity."

It is true, of course, that in the political sphere life has changed in many respects over the last century. Many more people around the world now live in some kind of democracy and have, at least occasionally, some limited say in how they are governed. As in the nineteenth century, however, the most important political institution everywhere continues to be the nation-state. Moreover, although at first glance, surprisingly little has changed in the basic structure of political democracies, closer examination reveals that there are many variants in democratic institutions around the world—different voting systems, different legislative structures, different types of party organization, different roles for different levels of governments, different relations between legislature, executive, and judiciary, and very different levels of popular participation in the political process.

[29] Feldstein (1975) provides a classic illustration of this proposition.

The world thus offers a potentially rich laboratory of experiments in different governance structures that may be associated with different policy outcomes. Sorting out what differences in political institutions matter, how, and how much, in affecting such outcomes as economic growth and the distribution of income and wealth is a complex analytical task that social scientists have only begun recently to untangle.[30] The relevant point here is that pressures from above on the nation state may, at least in some instances, increase pressures from below and thus bring to the fore the latent interregional tensions that lie below the surface in many countries. Such tensions are most obviously politically explosive when they reflect ethnic, linguistic, or other potentially fragmenting characteristics—that is, when more than one "nation" is contained within a single country.[31] Similar tensions may arise even in ethnically homogeneous countries, when, for example, one result of increasing openness to the world economy is to exacerbate (or even create) existing regional economic inequalities.

For example, to return to the case of Canada, such pressures, and their political and economic consequences, have clearly been manifested in that country. Although intranational trade remains vastly more important than international trade (Helliwell 1998), the increasing integration of both the Canadian industrial heartland (Quebec and especially Ontario) and its raw-material-rich West (British Columbia and especially Alberta) with the United States has profoundly altered the character of Canadian federalism. Quebec's disenchantment with some aspects of the existing political system is of course well known, as is the role that the internationalization—or, better, 'Americanization'—of Canada's economy has played in strengthening the hand of those who argue that Quebec is as economically viable on its own as it is as part of Canada. Similarly, the rise of the Western region as a separate and important player in the federal game, has been well documented. But what has really marked the key change in Canada is the increasing self-definition of an "Ontario" interest as separate from that of "Canada" in contrast to the long-standing view that Ontario's interest were a reflection of all of Canada (Courchene and Telmer 1998).

Regionalism and Equalization

A problem in any federation is to explain why rich regions are willing to support poor regions, whether such support is instituted through formal equalization systems, favorable treatment in federal investment and other policies, the tolerance of discriminatory barriers or whatever. In the absence of monetary, exchange, and tariff policies, regions within a country are severely constrained to the extent to which they can, in the words of the Swiss constitution, "attain the economic and political sovereignty of the people." (Linder 1998). Regional regulatory barriers, discriminatory federal expenditures and regulations, and differential tax and spending policies are the principal instruments open to regions that wish to make their mark—for good or for ill—on

[30] Persson and Tabellini (2000) provide a useful overview of what economists are up to in this regard, and Alesina and Spolaore (2003) a number of illuminating illustrations.
[31] A theme well illustrated with respect to Bosnia-Herzegovina in Fox and Wallich (2005).

economic decisions. The richer regions, those that are expected to be the source of redistribution, may in effect be given more “sovereignty” (autonomy) as partial compensation in order to keep them in a country. Sometimes, however, centralizing pressures are exerted through both the economic (factor mobility) and political (e.g., harmonization in the name of a common economic union) markets in order to discourage such ‘disintegrating’ policies. Alternatively, as appears to occur especially with small natural resource rich regions, they may be explicitly exempted from making their “full” contribution to regionally redistributive policy.[32]

Viewed from the recipient’s side, what interregional transfers may lead to is a moral hazard—e.g., implementing beggar-my-neighbor policies without paying the full economic penalty for such actions. Conversely, however, such economic efficiencies might be considered to some extent a necessary cost of political stability. Indeed, at the extreme the total ‘rents’ created and distributed through economically inefficient policies may perhaps be used as a measure of the stock of political capital that has been created (Wintrobe 1998). One author (Treisman 1998) has, for example, rationalized the inequality characterizing Russian interregional transfers in this context: the larger transfers went to those regions (notably excluding Chechnya) that could most credibly threaten to damage the nation-state by secession and/or withholding revenues. One could extend this logic to the view that the sum of such inefficient transfers is an investment by the central government in securing the loyalty of recalcitrant regions.

To the extent regional transfers can be thought of as constituting payments in exchange either for yielding constitutionally-entrenched authority or for adhering to the existing framework of the nation state, globalization may have an important impact. If the result of growing connections between foreign interests and local economies is to strengthen the latter in relative terms, centrifugal forces may be strengthened.

But if the resulting strengthening of the national economy as a whole results in increasing central revenues, the central government may nonetheless be able to increase its ‘buyout’ package and maintain political stability, a task that will obviously be easier if the economic incentives are not strengthened by more fundamental political forces such as linguistic distinctiveness. Of course, if the major new revenues accruing to the state from globalization accrue to provincial governments—whether because they own natural resources (Alberta in Canada or Alaska in the United States) or simply have the first administrative access to central revenues—centrifugal pressures may be exacerbated rather than alleviated (Russia, and to some extent, Canada).[33] Regional differences are accentuated while at the same time the capacity of the central government to level them out—whether through transfers or repression—is diminished.

Generally, if increasing openness to the world economy exacerbates regional economic disparities, poor regions in which exportable resources are located may be expected increasingly to assert their claim to a larger share of the increasing rents yielded by such resources. Aceh in Indonesia and the new regional government of South Sudan

[32] For an interesting early attempt to analyze some of these conflicting choices, see Milanovic (1996).
[33] Alesina and Spolaore (2003) provide a useful review of the empirical and theoretical literature on the trade-offs between political heterogeneity and the economic gains of market size: they conclude that globalization on the whole fosters political separatism.

are examples.[34] At the same time, rich regions—although they may themselves benefit disproportionately from increased trade—may become decreasingly inclined to support their poorer neighbors though interregional transfers. The bonds of common nationhood that were previously strengthened by the market-dependency of the rich on the poor—in most countries most transfers probably quickly flow right back to the so-called "donor" provinces through trade patterns—may be weakened. If so, the income-dependency of the poor on the rich may thus be eroded from both sides as globalization increasingly makes the world the relevant market.

Institutional Sustainability

Broadly speaking, there are only three ways for political institutions to be sustainable—so that people not only to believe in their credibility but are willing to act on this belief. First, most people may simply share the underlying values, that is, are pre-committed to the maintenance of the institution through a common ideology or belief system. If such a system does not exist, efforts may be made to create it, through such means as the heavy use of such political symbolism (e.g., the flag in the U.S. or perhaps in some countries the role of political parties and associated ideologies).

A second way to further political sustainability is to put into place a series of checks and balances—for example, through a constitution that is not easy to amend and is interpreted by a credibly independent judiciary (U.S.) or can be changed only by a very "direct" democratic process (Switzerland). Such checks and balances need not be governmental. Thus a different approach is to limit the power of government through such devices as a free press that can not only criticize the actions of those in political power but also, and equally importantly, serve as an important means of informing them of what citizens really want.[35] Combined with the existence of a credible constitutional means of removing leaders from power, such information systems may both enable commitments to be more credible and serve as an important signal transmitter between citizens and leaders. Indeed, as Wintrobe (1998) argues, such considerations suggest that no matter how inadequate democratic systems may sometimes seem in practice, they are theoretically always superior to dictatorial alternatives. Alternatively, the integrity of the nation-state may be maintained by fear of the consequences of the failure of the institution. While most obviously at play in non-democratic systems, the "fear card" of adverse economic consequences is certainly not unknown elsewhere. In Canada, for example, fear of adverse economic consequences is thought by some to be the main deterrent to Quebec separatism.

And, third, the loyalty of potential territorial dissidents may simply be bought, at least for a time. Examples range from "pork-barrel politics," as this process has been labeled in the United States, to granting monopoly privileges or rent to one's supporters in a manner that not only pays for political support but also tends to deter 'shirking' since what has been given can be taken back. On the other hand, sometimes those who feel that

[34] See Bahl and Tummenasan (2002) for discussion of the Aceh case.
[35] Islam in Islam, Djankov, and Simeon (2002)

their support has been bought may actually be reinforced in their dissident views.[36] Similarly, those who feel they are paying may become increasingly resentful of the burden over time—indeed, perhaps within a very short time, as seems to have occurred in Germany.[37] To the extent a country is seen by significant groups as being worthwhile only so long as it is profitable in some sense for them, increased global pressures may have serious implications for the continued existence of some countries. Increased pressure may turn glue into solvent.

Globalization

The World Development Report, *Entering the 21st Century* finds that policymakers during the 21st century will face two main and rends that will "shape the world in which development policy will be defined and implemented: globalization (the continuing integration of the world's economies) and localization (the desire of self determination and the devolution of power" (*WDR*, World Bank, 1990–2000). The WDR goes on to argue that while at first glance these two trends may seem countervailing, they often stem from the same sources such as advances in information and communications technology and, thus are reinforcing. However, at the same time that globalization is "gathering the world's economies together, the forces of localization are tilting the balance of power within them" as local groups can now often bypass the central authority with respect to once nationally dominated activities such as access developing international political alliances and development financing.

But globalization may also strengthen the center at the expense of the regions. For example, if the revenue base of the central government is improved as a result, it may be able to increase transfers and strengthen the effectiveness of the state as a whole.[38] On the other hand, if the result is to give new economic and fiscal strength to the regions, while weakening the central treasury, centrifugal pressures may be exacerbated rather than alleviated as some regions will feel more able to stand alone.[39] At the extreme, globalization weakens the domestic political bargains that have, over time, been struck in order to enable different groups to live together, the result may be an unhealthy tension that may be alleviated in part by directing anger at some foreign entity—e.g., through *jihad* (Barber 1996).

Concluding Comment

To sum up, if the result of globalization is increased economic growth concentrated in a certain region, the effects will vary from country to country depending upon a variety of factors, such as: Whether the region that benefits most was previously

[36] As Hirschman (1971) noted with respect to foreign aid, for example, people may take your money, explicitly given for purposes with which they are not in agreement, rationalize in some way the apparent betrayal of their beliefs by doing so, and continue to hold their beliefs.
[37] Spahn in Bird and Ebel, 2005.
[38] Wildavsky (1977) makes an argument along these lines.
[39] The most dramatic instances relate to sudden infusions of mineral wealth: what this means fiscally in a variety of different countries, and how it has been handled, is discussed in Davis, Ossokowski, and Fedelino (2003).

rich or poor; whether it is large or small; whether it is actually or potentially disaffected (for instance, on historical or ethnic grounds); what the effects are on fiscal revenues at both the regional and central levels; the nature of the intergovernmental fiscal system in place and how it is affected; and, of course, the ability and willingness of all parties to adjust to the new circumstances in a timely fashion. Listing such factors simply sets up a research agenda: it is far too soon to say how important particular factors may be in different countries or how any problems that may emerge as a result may be resolved in any country, let alone whether the result will be the introduction of more asymmetrical policies than those already in place.

One can, however, say that no reward comes without risk. Increased economic openness may raise income levels, but it also often increases volatility. Considering the downward side of increased economic volatility suggests a quite different way of looking at the potential impact of globalization on regionalization. Some form of fiscal decentralization—used here loosely as a generic term for some degree of power division and separation—may be a sensible means of coping with downside risk by achieving a certain degree of risk pooling (von Hagen, 2003). Decentralization within a national framework may thus be viewed to some extent as a defensive maneuver to protect regional and national interests, which are congruent to this extent at least.

All in all, both general considerations and the detailed examination of very diverse national experiences to be found around the world suggest that we should all perhaps remember, to paraphrase Charles Darwin, that it is not always the strongest species that survive, nor the most intelligent, but the ones most responsive to change.[40] With respect to asymmetry in particular and decentralized political and fiscal institutions more generally the interaction of globalization and decentralization may put this view of evolution to another test.

[40] This thought is developed by Katzenstein (1985).

References

Acosta, Olga Lucia and Richard M. Bird (2005) "The Dilemma of Decentralization in Colombia," in Richard M. Bird, James Poterba, and Joel Slemrod, eds., *Fiscal Reform in Colombia* (Cambridge, MA: MIT Press).

Addison, Tony (2005), From Conflict to Recovery (Oxford: Oxford University Press)

Affonso, Rui de Britto Alvares (2001) "Decentralization and Reform of the State: The Brazilian Federation at the Crossroads," in Bird and Stauffer (2001).

Ahmad, Ehtisham (1997) "Intergovernmental Transfers: An International Perspective" in Ehtisham Ahmad, ed., *Financing Decentralized Expenditures; An International Comparison of Grants* (Cheltenham UK: Edward Elgar)

Ahmad, Junaid (1998) "South Africa: An Intergovernmental Fiscal System in Transition," in Bird and Vaillancourt (1998).

Alesina, Alberto and Enrico Spolarore (2003) *The Size of Nations* (Cambridge, MA: The MIT Press).

Alesina, Alberto et al. (2002) "Fractionalization," Working Paper 9441, National Bureau of Economic Research, Cambridge, MA, December.

Annett, Anthony (2000) "Social Fractionalization, Political Instability, and the Size of Government," IMF Working Paper WP/00/82, International Monetary Fund, April.

Arze, Francisco Javier and Jorge Martinez-Vazquez (2003) "Descentralización en Latinoamérica desde una perspective de paises pequeños: Bolivia, El Salvador, Ecuador y Nicaragua," Working Paper 03-03, International Studies Program, Andrew Young School of Policy Studies, Georgia State University, March.

Avelar, Lucia (1999) "Citizenship and Social Diversity: The Aspect of Regional Diversity," Background Paper for Forum of Federations, International Conference on Federalism, Ottawa.

Bahl, Roy W. (1997) "Fiscal Federalism in Uganda," World Bank, Washington.

Bahl, Roy W. (2002) "Implementation Rules for Fiscal Decentralization," in M. Govinda Rao, ed., *Development, Poverty, and Fiscal Policy: Decentralization of Institutions* (New Delhi: Oxford University Press).

Bahl, Roy W. and Paul Smoke, eds. (2003) *Restructuring Local Government Finance in Developing Countries: Lessons from South Africa* (Cheltenham, UK: Edward Elgar).

Bahl, Roy W. and Bayar Tumennsan (2002) "How Should Revenues from Natural Resources be Shared?" Working Paper 02-14, International Studies Program, Andrew Young School of Policy Studies, Georgia State University, May.

Barber, Benjamin (1996) *Jihad vs. McWorld: How Globalism and Tribalism are Reshaping the World* (New York: Ballentine Books).

Basta, Lidja R. and Thomas Fleiner (1996) *Federalism and Multiethnic States: The Case of Switzerland* (Fribourg: Institut du Federalisme, Universite de Fribourg).

Bayenet, Benoit and Philippe de Bruycker (2005) "Belgium: A Unique Evolving Federalism," in Bird and Ebel (2005).

Bell, Michael E. and John H. Bowman (2002), Property Taxes in South Africa: Challenges in the Post-Apartheid Era (Cambridge, MA: Lincoln Institute of Land Policy)

Bird, Richard M. (2001) *Intergovernmental Fiscal Relations in Latin America: Policy Design and Policy Outcomes* (Washington: Inter-American Development Bank).

Bird, Richard M. (2003) "Taxation in Latin America: Reflections on Sustainability and the Balance between Efficiency and Equity," ITP Paper 0306, International Tax Program, Rotman School of Management, University of Toronto, June.

Bird, Richard M. and Duanjie Chen (1998) "Federal Finance and Fiscal Federalism: The Two Worlds of Canadian Public Finance," *Canadian Public Administration*, 43 (no. 1, 1998), 51-74.

Bird, Richard M. and Robert Ebel, eds. (2005). *Subsidiarity and Solidarity: The Role of Intergovernmental Relations in Maintaining an Effective State* (Cheltenham, UK: Edward Elgar).

Bird, Richard M., Robert D. Ebel, and Christine Wallich, eds., *Decentralization of the Socialist State,* (Washington, DC USA: World Bank, 1995).

Bird, Richard M. and Ariel Fiszbein (1998) "The Central Role of Central Government in Decentralization: Colombia," in Bird and Vaillancourt (1998).

Bird, Richard M. and Thomas Stauffer, eds. (2001) *Intergovernmental Fiscal Relations in Fragmented Societies* (Fribourg: Institut du Federalisme).

Bird, Richard M. and Francois Vaillancourt, eds. (1998) *Fiscal Decentralization in Developing Countries* (Cambridge: Cambridge University Press).

Bird, Richard M. and Francois Vaillancourt (2005) "Reconciling Diversity with Equality: The Role of Intergovernmental Fiscal Arrangements in Maintaining an Effective State in Canada," in Bird and Ebel (2005).

Breton, Albert and Anthony Scott (1978) *The Economic Constitution of Federal States* (Toronto: University of Toronto Press).

Cairns, Alan (2000) *Citizens Plus: Aboriginal Peoples and the Canadian S*tate (Vancouver: UBC Press).

Castells, Antoni (2001) "The Role of Intergovernmental Finance in Achieving Diversity and Cohesion: The Case of Spain," *Environment and Planning C: Government and Policy*, 19 (April): 189-206.

Courchene, Thomas J. and Colin R. Helmer (1998) *From Heartland to North American Region State: The Social, Fiscal and Federal Evolution of Ontario* (Toronto: Centre for Public Management, Faculty of Management, University of Toronto).

Dafflon, Bernard (2005) "Accommodating Asymmetry Through Pragmatism: An Overview of Swiss Fiscal Federalism," in Bird and Ebel (2005).

Davis, Jeffrey, Rolando J. Ossowski, and Annalisa Fedolina, eds. (2003) *Fiscal Policy Formulation and Implementation in Oil-Producing Countries* (Washington: International Monetary Fund).

Ebel, Robert D., Sebastiana Gianci and Endre Stiansen, "The Sudan Federalist Solution" in Bird and Ebel (2005).

Ebel, Robert D. and Robert Taliercio, "Subnational Tax Policy and Administration In Developing Economies, Tax Notes International, March 7, 2005 (pp. 919-936)

Ebel, Robert D. and Serdar Yilmaz (2003) "On the Measurement and Impact of Fiscal Decentralization," in James Alm and Jorge Martinez-Vazquez, eds. (2003) *Public Finance in Developing and Transitional Countries: Essays in Honor of Richard M. Bird* (Cheltenham, UK: Edward Elgar).

Elazar, Daniel J. (1957) *Exploring Federalism* (Tuscaloosa: University of Alabama Press).

Esman, Milton J. and Ronald J. Herring (2001) *Carrots, Sticks, and Ethnic Conflict: Rethinking Development Assistance* (Ann Arbor: University of Michigan Press).

Faguet, Jean-Paul (2001) "Does Decentralization Increase Responsiveness to Local Needs? Evidence from Bolivia," Centre for Economic Performance and Development Studies Institute, London School of Economics.

Feldstein, Martin (1975) "Wealth Neutrality and Local Choice in Public Education," *American Economic Review*, 65: 75-89.

Flanagan, Tom (2000) *First Nations? Second Thoughts* (Montreal: McGill-Queens University Press).

Ford, James Fitz and Jennie Litvack (2001) "Intergovernmental Fiscal Relations and Nation Building: West Bank-Gaza Case Study," in Bird and Stauffer (2001).

Fox, William and Christine Wallich (2005) "Fiscal Federalism in Bosnia-Herzegovina: Subsidiarity and Solidarity in a Three-Nation State," in Bird and Ebel (2005).

Garcia-Mila, Teresa and Therese J. McGuire (2005) "Fiscal Decentralization in Spain: An Asymmetric Transition to Democracy," in Bird and Ebel (2005).

Grindle, Merilee (2000) "Designing Reforms: Problems, Solutions, and Politics," RWP01-20, Faculty Research Working Paper Series, John F. Kennedy School of Government, Harvard University, November.

Haysom, Nicholas R.L., "Constitution Making and Nation Building" in Blindenbacher, Raoul and Arnold Koller, Eds., (2002) *Federalism In a Changing World—Learning form Each Other* (Montreal & Kingston: McGill-Queens University Press)

Helliwell, John (1998) *How Much Do National Borders Matter?* (Washington: The Brookings Institution).

Hirschman, Albert O. (1971) *A Bias for Hope* (New Haven: Yale University Press).

Holzhausen, Walter (1974) *Federal Finance in Malaysia* (Kuala Lumpur: Penerbit Universiti Malaya).

Islam, Roumeen, "Into the Looking Glass: What the Media Tell and Why—an Overview," in Islam, Roumeen, Simeon Djankov, and Caralee McLeish, eds. (2002), *The Right to Tell: The Role of Mass Media in Economic Development* (Washington: World Bank)

Katzenstein, Peter J. (1985) *Small States in World Markets* (Ithaca, NY: Cornell University Press).

Kopits, George and Jon Craig (1998) *Transparency in Government Operations*. Occasional Paper No. 158 (Washington: International Monetary Fund).

Lane, Patricia, "Land Law and Communal Title in Australia," Presentation to Parties and Observers, Sudan Peace Conference, Machakos, Kenya, May 2003

Linder, Wolf, Swiss Democracy: Possible Solutions to Conflict In Multicultural Societies (1998)(London: Mac Millian Press, 1998.

Litvack, Jennie, Junaid Ahmad, and Richard Bird (1998) *Rethinking Decentralization* (Washington: World Bank).

Mahbob, Sulaiman et al., eds. (1997) *Malaysia's Public Sector in the Twenty-First Century: Planning for 2020 and Beyond* (Kingston, Canada: John Deutsch Institute for the Study of Economic Policy, Queen's University).

Martinez-Vazquez, Jorge, and Jamie Boex (2001) *Russia's Transition to a New Federalism* (Washington: World Bank).

Milanovic, Branko (1996) "Nations, Conglomerates, and Empires: The Tradeoff between Income and Sovereignty," Policy Research Working Paper 1675, World Bank, October.

Persson, Torsten and Guido Tabellini (2000) *Political Economics: Explaining Economic Policy* (Cambridge, MA: The MIT Press).

Petersen, John and Mila Freire, Marcela Huertas and Miguel Valadez (2004), Subnational Capital Markets in Developing Countries: From Theory to Practice (Oxford: Oxford University Press and World Bank, 2004)

Pisauro, Giuseppe (2001) "Intergovernmental Relations and Fiscal Discipline: Between Commons and Soft Budget Constraints," IMF Working Paper WP/01/65, International Monetary Fund, May.

Rodden, Jonathan, Gunnar S. Eskeland, and Jennie Litvack, eds. (2003) *Fiscal Decentralization and the Challenge of Hard Budget Constraints* (Cambridge, MA: The MIT Press).

Rondinelli, Dennis, J. Nellis, and G. Cheema (1983) "Decentralization in Developing Countries," Staff Working Paper 581, World Bank, Washington.

Ruiz Almendar, Violet (2002) "Fiscal Federalism in Spain: The Assignment of Taxation Powers to the Autonomous Communities," *European Taxation,* November, 467-75.

Saunders, Cheryl, "Federalism, Decentralization and Conflict Management in Multicultural Societies", in Blindenbacher, Raoul and Arnold Koller , Eds., (2002) *Federalism In a Changing World—Learning form Each Other* (Montreal & Kingston: McGill-Queens University Press)

Saul, John Ralston (1997*) Reflections of a Siamese Twin: Canada at the End of the Twentieth Century* (Toronto: Penguin Books).

Simeon, Richard (2000) "Let's Get at the Basic Question Indirectly," *Policy Options,* 21 (Jan. Feb.): 11-16.

Simeon, Richard , and Christina Murray (2000) "Multi-Level Governance in South Africa: An Interim Assessment," University of Toronto.

Spahn, Paul Bernd (2005), "Public Finances and Federalism: Autonomy, Coordination and Solidarity, *Proceedings of the Third International Conference on Federalism*, Brussels, March 2005.

Spahn, Paul Bernd and Jan Werner (2005) "Germany at the Junction between Solidarity and Subsidiarity," in Bird and Ebel (2005).

Stauffer, Thomas P. (2001) "Intergovernmental Relations in Fragmented Societies – The Case of Switzerland," *Environment and Planning C: Government and Policy,* 19 (April): 207-22.

Tanzi, Vito (1996) "Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects," in Michael Bruno and Boris Pleskovic, eds. *Annual World Bank Conference on Development Economics 1995* (Washington).

Treisman, Daniel (1998) *After the Deluge: Regional Crisis and Political Consolidation in Russia* (Ann Arbor: University of Michigan Press).

Vaillancourt, Francois (1992) "English and Anglophones in Quebec: An Economic Perspective," in *Survival – Official Language Rights in Canada* (Toronto: C.D. Howe Institute).

Vaillancourt, Francois and Richard M. Bird (2005) "Changing with the Times: Success, Failure, and Inertia in Canadian Federal Arrangements, 1945-2001," in T.N. Srinivasan and Jessica Wallack, eds., The Dynamics of Federalism (Cambridge University Press).

Vinuela, Juan (2001) "Fiscal Decentralization in Spain," International Monetary Fund, Washington.

Von Hagen, Jurgen (2003) "Fiscal Federalism and Political Decision Structures," in Raoul Blindenbacher and Arnold Koller, eds. Federalism in a Changing World (Montreal: McGill-Queen's University Press).

Watts, Ronald (1999) *Comparing Federal Systems* (2nd ed.; Montreal and Kingston: McGill-Queen's University Press).

Watts, Ronald L. (2000) "Asymmetrical Decentralization: Functional or Dysfunctional," Queen's University.

Wehner, Joachim H-G (2000) "Asymmetrical Devolution," *Development Southern Africa*, 17 (June): 249-62.

Welikala, Asanga (2003) "Fiscal and Financial Arrangements in a Federal Sri Lanka: Some Issues for Discussion," Centre for Policy Alternatives, Colombo.

Wildasin, David (1997) "Externalities and Bailouts: Hard and Soft Budget Constraints in Intergovernmental Fiscal Relations," Policy Research Working Paper No. 1843, World Bank, November.

Wildavsky, Aaron (1977) *Budgeting* (New Brunswick, NJ: Transaction Publishers).

Wilensky, Harold (1975) *The Welfare State and Equality* (Berkeley: University of California Press).

Winik, Jay (2002) *April 1865: The Month that Saved America* (New York: Harper).

Wintrobe, Ronald (1998) *The Political Economy of Dictatorship* (Cambridge: Cambridge University Press).

World Bank (1999) *Regionalization in Ethiopia* (Washington).

World Bank (2000) *Entering the 21st Century. World Development Report 1999/2000* (Oxford: Published for the World Bank by Oxford University Press).

Zelio, Judy, “Tribal Taxation” in Cordes, Joseph J, Robert D. Ebel, and Jane G. Gravelle, Eds. *The Encyclopedia of Taxation and Tax Policy* (Washington, DC, USA: Urban Institute Press, 2005)