International Studies Program

Working Paper 03-09
April 2003

Asymmetric Fiscal Decentralization: Glue or Solvent?

Richard M. Bird

Georgia State University

Andrew Young
School of Policy Studies

Asymmetric Fiscal Decentralization: Glue or Solvent?

Working Paper 03-09

Richard M. Bird
April 2003

International Studies Program
Andrew Young School of Policy Studies
Georgia State University
Atlanta, Georgia 30303
United States of America

Phone: (404) 651-1144
Fax: (404) 651-3996
Email: ispaysps@gsu.edu
Internet: http://isp-aysps.gsu.edu

Copyright 2001, the Andrew Young School of Policy Studies, Georgia State University. No part of the material protected by this copyright notice may be reproduced or utilized in any form or by any means without prior written permission from the copyright owner.

International Studies Program
Andrew Young School of Policy Studies

The Andrew Young School of Policy Studies was established at Georgia State University with the objective of promoting excellence in the design, implementation, and evaluation of public policy. In addition to two academic departments (economics and public administration), the Andrew Young School houses seven leading research centers and policy programs, including the International Studies Program.

The mission of the International Studies Program is to provide academic and professional training, applied research, and technical assistance in support of sound public policy and sustainable economic growth in developing and transitional economies.

The International Studies Program at the Andrew Young School of Policy Studies is recognized worldwide for its efforts in support of economic and public policy reforms through technical assistance and training around the world. This reputation has been built serving a diverse client base, including the World Bank, the U.S. Agency for International Development (USAID), the United Nations Development Programme (UNDP), finance ministries, government organizations, legislative bodies and private sector institutions.

The success of the International Studies Program reflects the breadth and depth of the in-house technical expertise that the International Studies Program can draw upon. The Andrew Young School's faculty are leading experts in economics and public policy and have authored books, published in major academic and technical journals, and have extensive experience in designing and implementing technical assistance and training programs. Andrew Young School faculty have been active in policy reform in over 40countries around the world. Our technical assistance strategy is not to merely provide technical prescriptions for policy reform, but to engage in a collaborative effort with the host government and donor agency to identify and analyze the issues at hand, arrive at policy solutions and implement reforms.

The International Studies Program specializes in four broad policy areas:

- **Fiscal policy**, including tax reforms, public expenditure reviews, tax administration reform
- **Fiscal decentralization**, including fiscal decentralization reforms, design of intergovernmental transfer systems, urban government finance
- **Budgeting and fiscal management**, including local government budgeting, performance-based budgeting, capital budgeting, multi-year budgeting
- **Economic analysis and revenue forecasting**, including micro-simulation, time series forecasting,

For more information about our technical assistance activities and training programs, please visit our website at **http://isp-aysps.gsu.edu** or contact us by email at **ispaysps@gsu.edu**.

Asymmetric Fiscal Decentralization: Glue or Solvent?

Richard M. Bird[1]

Canada, Russia, Nigeria, Indonesia, Macedonia, Switzerland, South Africa, China, Belgium, Bosnia-Herzegovina, Spain, Uganda, the Philippines, Tanzania, India, Rwanda, Sri Lanka, the United Kingdom, Ethiopia, Turkey, Serbia, Algeria, Sudan, Moldova, Morocco, Cameroon, even France…What can such a diverse set of countries (and many others) have in common? The answer is that each contains within its boundaries a significant territorially-based group of people who are (or consider themselves to be) distinct and different – in ethnicity, in language, in religion, or just in history --from the majority population. Indeed, contrary to the view -- one might say "mythology" of the nation-state as a unified and homogeneous entity -- such multi-ethnic countries (called "fragmented" societies by Bird and Stauffer, 2001[2]) – exist throughout the world.

Usually, the majority group dominates politically. Sometimes, a particular minority exerts more influence, perhaps because of its wealth and power. Occasionally, as in the United States, Brazil, and some other ethnically heterogeneous countries, overriding factors may suppress much or all of the potential political influence of ethnicity.[3] Nonetheless, even in countries in which most people are ethnically and linguistically homogeneous, the economic situation of different regions may be extremely different, ranging from large, rich metropolitan areas to remote, impoverished settlements and other areas rich in petroleum or other highly-valued natural resources. At the

---

[1] Professor of Economics Emeritus, University of Toronto, and Distinguished Visiting Professor, Andrew Young School of Public Policy, Georgia State University.

[2] Bird and Staufer (2001) contains the proceedings of a conference on this topic organized by the World Bank Institute in collaboration with the Institute du Federalisme of the University of Fribourg. Portions of the present paper follow closely Bird (2001). I am grateful to many participants at the Murten conference for useful comments on, and discussions of, these themes, as well as to many others at the World Bank, including Robert Ebel, Jennie Litvack, Christine Wallich, Junaid Ahmad, Amdaou Cisse, Victor Vergara, and Dana Weist, for helpful discussions. (Incidentally, note that the "fragmentation" referred to in the text is fundamentally different from the "fractionalization" discussed in Alesina et al. (2002) because it emphasizes the territorial aspect of ethnic or other differentiation.)

[3] In the United States (broadly interpreted), for example, there are "asymmetrical" relationships, for example, with 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. (For a useful categorization of different forms of "association" between territories, see Watts 1999.) For a brief overview of the racial and economic diversity of Brazil, see Avelar (1999); Affonso (2001) provides a useful review of decentralization and reform in Brazil.

extreme, in some instances such differences may even lead to pressures that in some ways mimic those often arising from ethnic fragmentation. Of course, it is when both forces -- ethnic and economic -- combine that the situation is most likely to become explosive. Even in cases that fall far short of such circumstances, in one way or another, however, heterogeneity (whether ethnic or economic, or both) within countries is more common than homogeneity.

Some countries have -- often through a prolonged historical process, sometimes including civil wars and violence -- achieved an equilibrium in which their political, fiscal, and institutional structure balances the diverse forces and sustains the maintenance of an effective national state.[4] Others, however, are in constant turmoil. Some nation-states have fallen apart – the former Yugoslavia and the former Soviet Union and the former Czechoslovakia are obvious recent examples. The integrity and effectiveness of still others, even long-established and prosperous countries such as Canada and Belgium, sometimes seems, at least to those who live there, to be under constant threat. In recent years, such pressures have increased owing, in part, to globalization and the related 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, at least in the minds of some, the desirability and sustainability of the established nation-state.

In part in response to such factors, decentralization is clearly in the academic air. It is also very much on the policy ground. Developed countries, developing countries, transitional countries, federal countries, unitary countries – wherever one looks in the world these days, some kind of decentralization seems to be taking place, or is at least being discussed. But what, exactly, is going on? And why is it going on? An incredible variety of rationales and institutional arrangements can be, and are, encompassed under the portmanteau label "decentralization."

What is Decentralization?

Some of the confusion that seems to prevail in many circles about decentralization arises simply because this term can and does mean very different things to different people.[5] *Political decentralization* in the sense of devolving power to locally-elected officials, for example, is not the same as, nor necessarily associated with, *administrative decentralization* – and the reverse is even truer.

[4] For an excellent recent reminder of the precariousness of this balance at critical moments, see the recent book on the resolution of the American Civil War in 1865 by Winik (2002).

[5] At the risk of adding to the confusion, note that Schneider (2002) characterizes all three of the varieties of decentralization discussed here -- essentially along the lines set out in Rondinelli (1984) --as varieties of "administratrative decentralization" and characterizes "political decentralization" solely in terms of whether different levels of government are elected in a representative fashion. Similarly, Breton (2002) distinguishes sharply between what he calls federalism (entrenched constitutional powers), "federalization" (when it is very difficult to take powers back, so that subordinate levels can be considered "empowered" or "owners" of powers), and simple "decentralization" which means (in his approach) that what is bestowed from above can be taken away and hence is not very meaningful. The highly condensed presentation in the text obviously skates swiftly over some rather thin ice.

Administrative decentralization, for example, may simply redistribute responsibilities among different levels of the central government, up to and including the creation of moderately autonomous field administrations. This process is sometimes referred to as *deconcentration*. No decision-making power is placed in the hands of locally representative bodies, however. Of course, if the full administrative responsibility for particular functions has been fully devolved to local governments, such conflict should not arise in principle. Nonetheless, conflict often arises with *devolution* in practice because -- with exceptions in a few developed countries -- even the most decentralized regional and local governments as a rule remain dependent to a large extent on central financing and are hence, in line with the well-known principle that "he who pays the piper, calls the tune," almost inevitably closer to *delegation* in practice, and hence subject to central influence, monitoring, and, in some instances, control.[6]

To add to the prevailing confusion in most countries, decentralization (of whatever variety) need not, and indeed usually does not, occur evenly across the board. Some activities, or parts of some activities, may be decentralized to one 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. And so on. Understanding, measuring, and analyzing the extent and nature of decentralization in any country is seldom a simple exercise (Ebel and Yildaz, 2001).

Why Is Decentralization Occurring?

However decentralization may be defined or understood, why is it occurring? A recent World Bank study (World Bank, 2000) noted correctly that the evidence was, to say the least, "mixed" with respect to all of the traditional rationales for decentralization found in the conventional economic literature on fiscal federalism:

- Does decentralization increase the efficiency and responsiveness of government? It may, or it may not. It depends. We're not sure. These appear to be the answers that emerge from the literature.

- What about equity? Does decentralization help or hurt poor regions? Poor people? Again, it may or it may not. It depends. We're not sure.

- And what about the third horseman of the conventional public finance triad of efficiency, equity, and stability? Again, the answers appear to be the same. Decentralization may or may not imperil macroeconomic stability. It depends. We're not sure.

There is, to be sure, a certain degree of monotony in these answers, and some, no doubt, would dispute them – thus perhaps demonstrating what another recent World Bank study (Litvack et al., 1998, 3) referred to as the "curious combination of strong preconceived

[6] As Bird (1993) argues, decentralization as delegation can be best analyzed in terms of agency theory. The sharp contrast between delegation at the provincial-local level and devolution (federalism) at the federal-provincial level in Canada is discussed in Bird and Chen (1998).

beliefs and limited empirical evidence" that characterizes all too much recent discussion of decentralization. Nonetheless, it appears implausible to attribute much of the recent activity with respect to decentralization in many countries to these traditional economic concerns in any case.

On the contrary, as World Bank (2000) also argues, the main reason for the rising interest in decentralization in many countries seems clearly to be political stability rather than economic efficiency, growth, or any of the other factors on which economists are accustomed to ruminate. Chechnya, East Timor, Kosovo, Kashmir, Sri Lanka, Sudan, Macedonia….the list of territorially-based ethnic minorities taking up arms against the state is lengthening. It is thus not surprising that some countries appear to be trying to pre-empt such pressures in part by decentralizing some activities.[7] As World Bank (2000, 207-08) puts it, perhaps a bit optimistically, "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." Specifically, World Bank (2000) gives five specific "political" rationales for decentralization:

1. Decentralization, it suggests, may sometimes serve as a "path to national unity." The examples cited are South Africa and Uganda.[8]

2. Decentralization may in some instances "offer a potential political solution" to a civil war. Sri Lanka is the case cited; subsequently, Sudan may perhaps be added to this list.[9]

3. Less drastically, decentralization may serve as "an instrument for deflating secessionist tendencies," as, it suggests, has occurred to some extent in Ethiopia and Bosnia and Herzegovina.[10]

4. Decentralization may attempt to achieve a similar aim by "conceding enough power to regional interests to forestall their departure from the republic." The example given is the Russian Federation.[11]

5. And, finally, the report suggests that decentralization may be used, as it were, in effect to co-opt "grassroots support" for central policies, and asserts that Colombia provides a relevant example.[12]

---

[7] See Esman and Herring (2001) for detailed consideration of the role that development assistance may play in exacerbating, or alleviating such pressures.
[8] The South African case is discussed in Ahmad, 1998, Simeon and Murray, 2000, Bahl, 2001, and Bahl and Smoke (2003). Bahl (1997) discusses Uganda.
[9] For a recent consideration of the fiscal aspects of decentralization in Sri Lanka, see Welikala (2003); the same question in Sudan was recently discussed in conjunction with a peace conference held in Nairobi.
[10] The latter case is discussed in Fox and Wallich (2001). 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).
[11] This case is discussed in Martinez-Vazquez (2002); see also Treisman (1998) and Martinez-Vazquez and Boex (2001).

The Tradeoffs of Decentralization

Whether decentralization in any of its myriad forms help or hurt political stability – whatever one may understand by that term – is thus clearly a key question. 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" seems the best that can be offered at present with respect to such political arguments. Nonetheless, even long-centralized countries like the United Kingdom have been moving in this direction, with the devolution of increasing functions to Wales and especially 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), Turkey (Kurds), Nigeria (Ogoni), and Georgia (Abkhaz and Ossetians) are seeking similar (or greater) territorial autonomy.

Whether the long-term (or even not so long-term) results of greater decentralization in response to such pressures would be political stability or increased instability is, however, far from clear. Certainly there are many past examples that are not particularly encouraging such as the (once) Federation of the West Indies, Rhodesia and Nyasaland, Yugoslavia, Pakistan, Czechoslovakia, and the USSR (Watts, 1999). On the other hand, there are also some counter examples where to some extent at least decentralizing policies appear to have been one factor that has helped to hold together countries that might otherwise have fragmented: possible examples are Canada, Belgium, India, and Malaysia.[13] Annett (2000), who focuses on countries in which he assumes 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 government consumption, although as yet the empirical evidence in support of such propositions remains quite tenuous.

An additional important political concern is that "excessive" 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 actually more general. There is, some argue, a fundamental trade-off that has to be struck in any country between the extent to which its political system represents different local points of view and its capacity for effective political action. Some degree of decentralization may, in some circumstances, be needed to maintain the nation-state, but too much decentralization might render that state ineffective in coping with crisis. While it may be argued that such apocalyptic conclusions do not pay

---

[12] For a quite different version of the Colombian case, see Bird and Fiszbein (1998) and Acosta and Bird (2002). A more appropriate example might be Bolivia, where a "municipalization" program was adopted in the early 1990s in part precisely to strengthen the national state by positioning it as the main lifeline of local development while at the same time countering the centrifugal tendencies that a more "federal" decentralization program, focusing on the provincial level, would have fostered (Grindle, 2000). As Faguet (2001) reports, the Bolivian experiment appears to have succeeded in making government more responsive to local wishes and needs. For recent discussion, see Arze and Martinez-Vazquez (2003).

[13] On Canada, see Bird and Vaillancourt (2001), and Vaillancourt and Bird (2002); on Belgium, Bayonet and De Bruycker (2002); and on India (Rao and Singh, 2002).

sufficient attention to the all-important details of precisely how decentralization institutions are designed and implemented, the matter remains a controversial one that cannot be discussed further here.[14]

The trade-off between effectiveness and decentralization manifests itself also with respect to redistributive policy, whether interregional or interpersonal. It is not by chance, many argue, that the "welfare state" was a centralizing state (Wilensky, 1975): only at the national level could the interests of the disadvantaged be given enough weight to overcome those of local elites. To the extent that effective decentralization implies local autonomy in revenue and expenditure policy, there may thus seem to be an inherent conflict between subsidiarity and solidarity, between local autonomy and national redistribution.[15] The precise terms of such a tradeoff, and whether there is a "breakpoint" beyond which a country cannot both have its autonomous cake and eat its redistributive one seems largely to depend upon the details of local institutions and circumstances.

Spahn and Franz (2002), for example, suggest that the incorporation of the much poorer eastern regions may have pushed Germany closer to this breakpoint. If even basically homogeneous 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 – Belgium comes to mind in Europe, for example – would appear likely to reach this 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, as Vaillancourt and Bird (2002) note, it too faces the problem of "group" versus "individual" redistribution with respect to its large aboriginal population.[16] Other countries face similar problems.

Fiscal Decentralization

Whatever its rationale or form, decentralization has invariably involved (or resulted in) changes in the fiscal structure of the state and hence in the nature and scope of state activities. Often, the most critical and disputed questions with respect to decentralization are fiscal: who gets what, and who pays for it? 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 interaction between changes in intergovernmental fiscal relations in response to changing economic and political pressure and the continued maintenance of an effective public sector in the conditions of diverse countries. Under what conditions does increased "subsidiarity" foster "solidarity," and under what conditions might increasing autonomous subnational governments on the contrary have the opposite result of fostering not national integration

---

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

[15] Schneider (2002) develops this argument at length.

[16] The aboriginal question is discussed extensively in Cairns (2000) and Flanagan (2000).

but perhaps the disintegration of nations? When, that is, is decentralization a "glue" that holds countries together, and when is it a "solvent" that may lead to their disintegration?

The key fiscal aspects of decentralization are five:

1. Who determines who gets what revenues?
2. Who is responsible for what expenditures?
3. How do intergovernmental transfers work?
4. What degree of freedom do sub-national governments have with respect to borrowing?
5. Who determines the institutional setting within which the preceding questions are answered?

The key fiscal "rules" that the extensive literature on this subject (see, for example, Bahl, 1999; Bird, 2001a) 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. 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, at least to some extent, provide a certain degree of equity, at least in the sense of "place equity" -- although to extend it very far in the direction of attempting to achieve "interpersonal equity" a certain degree of direct central intrusion in subnational decisions seems likely to be needed (Bird and Rodriguez, 1999). In addition, to ensure macroeconomic stability, sub-national borrowing may initially have to be constrained by hierarchial controls, although in the longer run it should ideally become subject primarily to market constraints (Rodden, Eskeland, and Litvack, 2003).[17] 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 both the development of sufficient local capacity and, even more importantly to provide for periodic adjustments to meet changing circumstances and a forum for the resolution of the disputes that inevitably arise in any functioning intergovernmental system (Bird, 2001a).

All this is fine, but what is clear is that such rules are a long way from describing reality in most countries. Moreover, the relation of such institutional rules to the political

[17] 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).

issues that appear to be motivating much of the current concern with decentralization seems to be at best remote. How can this apparent gap be closed?

Asymmetric Decentralization

One way to close it is by taking into account some aspects of the decentralization story that are not encompassed in such simple rules and then considering how in practice the rules have been, to varying degrees, bent in many countries precisely to accommodate such deviations. Rules such as those found in 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 investment in human capital – can be readily placed in a purely rational economic framework, 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 often 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 these 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), and 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.[18] Even such a traditionally "unitary" country as the United Kingdom -- which has in fact always incorporated distinctly different regimes for Northern Ireland, the Isle of Man, and the Channel Islands -- has moved in the direction of greater asymmetry in recent years, both in Wales and especially in Scotland.

Indeed, 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. Such asymmetry illustrates the adaptive nature of political institutions: it may be imposed from above, agreed to by all parties, or optionally chosen by particular communities.

[18] As Dafflon (2003) 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).

Wehner (2000) suggests that asymmetrical arrangements may arise for political reasons, to diffuse ethnic or regional tensions, or for such efficiency reasons as to achieve better macroeconomic management and administrative cohesion or to enable subnational governments with differing capacities to exercise the full range of their functions and powers. The former type of asymmetry -- which may perhaps be called *political asymmetry* -- is clearly driven by non-economic concerns, while the latter is fully consistent with a very "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) might be granted greater autonomy than others.[19] Alternatively, *administrative asymmetry* might be applied more generally, in accordance with some predetermined rules. Either type of asymmetry might be either transitional or permanent in nature and might have functional as well as financial manifestations. Asymmetry may also be either de jure or de facto, and 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. 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.[20]

In fiscal terms, the central concern of the present paper, 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.

As an example, Bird and Vaillancourt (2001) discuss the important role played by linguistic and cultural differences in explaining the nature of Canadian fiscal federalism. In a recent paper, Richard Simeon (2000) suggests that to some extent Canadians may perhaps be thought of as two peoples divided by a misunderstood word – "sovereignty." For English Canadians, he says, sovereignty tends to be interpreted "in its classical sense of a fully independent state." For many Quebeckers, on the other hand, the term evokes not a black-or-white, 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, as Simeon stresses, are dangerous and may result in outcomes

[19] For an example of such an approach in Colombia with respect to education, see Bird and Fiszbein (1998).
[20] See Watts (2000) for extensive discussion of all these possible classifications, with examples. The Spanish case is particularly interesting: see Castells (2001), Viola (2001), McGuire and Garcia-Mila (2002), and Ruiz Almendar (2002) for recent discussions.

not really desired by either group. Canada, of course, 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 simply 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.[21] As much recent analysis suggests, ethnic identities are not constants; rather they are 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 inherent (Esman and Herring, 2001).

Fiscal rationality may seem irrelevant when faced with symbolic meaning. Nonetheless, though communication alone cannot do the job of achieving the degree of consensus or trust that appears to be an essential ingredient for a sustainable 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. In the words of Michael Chwe (2001, 111): "When we face each other, when we are both awake, that fact is common knowledge, and successful coordination, although not guaranteed…is at least possible. When you are facing away, successful coordination is not possible, even when both of us get the message." Fiscal institutions, it is usually argued, can best serve if they deliver the message of accountability clearly. But whether this message will be received and acted upon will, as always, depend upon whether other institutions allow the message to be heard.

In any case, at the minimum, it seems clear that 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. To mention the Canadian case once more, many approaches have, over the years, 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, and of course the use of federal funds for both direct spending and intergovernmental transfers.[22] At different times, each of these approaches seems sometimes to have helped and sometimes 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, as Bird and Vaillancourt (2001) and Vaillancourt and Bird (2002)

[21] There can be few more telling political slogans in this respect than the slogan displayed on every auto license place in Quebec: the motto of what was once "la belle province" has, since the rise of separatist sentiment, become "je me souviens." For an idiosyncratic but telling consideration of this and many other relevant issues in the Canadian context, see Saul (1997).

[22] Boadway and Watts (2000) provide a useful recent overview.

indicate, it is not at all clear that it will be able to continue to muddle through without considering more fundamental political changes.

An important question that has constantly emerged in Canada, for instance, and which appears to resonate more widely, concerns the issue of "asymmetry," or what has sometimes been referred to in the context of the European Union as "variable geometry." In Canada, Quebec is definitely not a province "comme les autres" in a number of important ways. Over time, this obvious 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, to paraphrase Gertrude Stein, "a province is a province is a province" – namely, that all provinces should be treated equally before the law, as it were -- and such asymmetrical arrangements.[23] Such tension exists even if asymmetry can be argued to be necessary not just to maintain the integrity of the nation-state but also to ensure, as noted below, that the intended results of national policies are in fact achieved in the different circumstances of different regions.

Whether viewed in political or economic terms, the nature and effects of asymmetrical fiscal policies can generally only 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, it has, as it were, acted as glue to hold the state together – or whether on the contrary, appetite has, as it were, grown with the eating so that those regions that are treated differently decide to go further and opt out completely –so that, as it were, 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 which appears to be very context-dependent and not easily reducible to simple generalizations. A particular concern in this respect in recent years relates to the much discussed phenomenon of globalization.

Globalization, Regionalization, and Fiscal Decentralization

As noted above, asymmetrical policies may sometimes be required to elicit uniform responses to central policies from differently advantaged regions.[24] Similarly, some sort of differentiation may seem necessary to soothe disaffected regions sufficiently to maintain political stability, even if doing so may risk 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 in many ways been accentuated in recent years by the much discussed phenomenon of globalization.

The world has changed enormously over the last century. 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. Technology has changed the world in which we live in many respects. Much has been

[23] As a recent example, see the discussion of securities regulation in Vaillancourt and Bird (2002).
[24] Feldstein (1975) provides a classic illustration of this proposition.

said and written recently about the resulting "new economy." Less has been said about the "new polity," however, perhaps because at first glance there seems to be much less to say. It is true, of course, that in the political sphere, too, 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, at first glance, surprisingly little has changed in the basic structure of political democracies, although 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, very different levels of popular participation in the political process, and so on.

The world thus offers a potentially rich laboratory of experiments in different governance structures which 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.[25] The relevant point here is that pressures from above on the nation state may, in some instances at least, 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 "national" characteristics - when, as it were, more than one "nation" is contained within the bosom of a single country. But they may also 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.

To continue with the Canadian example used earlier, such pressures, and their political and economic consequences, have clearly been manifested in that country. Although intra-national trade remains vastly more important than international trade (Helliwell, 1998), there can be no question that 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, with its own axes to grind, has been well documented in recent years. 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 perception that, to paraphrase a well-known saying "what is good for Canada is good for Ontario, and vice versa" (Courchene and Telmer, 1998).

---

[25] Persson and Tabellini (2000) provide a useful overview.

A central problem in any federation is to explain why rich regions are willing to "support" poor regions - whether such support is 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 in the extent to which they can, in the words of the Swiss constitution, "attain the economic and political sovereignty of the people." Provincial regulatory barriers, discriminatory federal expenditures and regulations, and differential tax and spending policies are the principal instruments open to provinces that wish to make their mark - for good or for ill - on economic decisions. The richer regions, those which are expected to be the source of redistribution, may in effect be given more "sovereignty" in some of these ways 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 (harmonization in the name of "common economic union) markets to discourage such use. Alternatively, as is often the case with small natural resource rich regions, they may be explicitly exempted from making their "full" contribution to regionally redistributive policy.[26]

Viewed from the recipient's side, in a sense what interregional transfers do is to enable provinces to behave "badly" in such respects without paying the full economic penalty for their misbehavior. Economists have frequently criticized such transfers for this reason. Conversely, however, such economic inefficiencies might be considered to some extent a necessary cost of political stability. Indeed, at the extreme the total "rents" that are created and distributed through economically inefficient policies implemented for political ends 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 the early 1990s to some extent in this fashion: 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. He might equally, perhaps, have treated the sum of such inefficient transfers as an investment by the central government in securing the "loyalty" of recalitrant regions.

To the extent regional transfers can be thought of as playing this role - that is, transfers constitute payments in exchange either for yielding constitutionally-entrenched authority (Breton and Scott, 1978) or for adhering to the existing framework of the nation state ("profitable federalism" as it has been called in Canada) - 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 like those mentioned above with respect to Canada may be strengthened.

On the other hand, 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

[26] For an interesting early attempt to analyze some of these conflicting choices, see Milanovic (1996).

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 kick at the revenue can (Russia, and to some extent China) - centrifugal pressures may be exacerbated rather than alleviated.[27] 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.

Whatever the mechanism, if increasing openness to the world economy exacerbates regional economic disparities, then poor regions in which exportable resources are located may increasingly assert their claim to a larger share of the increasing rents yielded by such resources. Aceh in Indonesia is an obvious example.[28] 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, for instance, probably quickly flow right back to the so-called "donor" provinces through trade patterns -- and the income-dependency of the poor on the rich may thus erode from both sides as the world becomes the relevant market.

Broadly speaking, there appear to be three main ways for political institutions to be sustainable—for people not only to believe in their credibility, but to be willing to act on this belief.

- First, they may simply share the underlying values, or be, as it were, pre-committed to the maintenance of the institution through a common ideology or belief system. If such a system does not exist, then 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 in some countries the role of political parties and associated ideologies.

- Another way to create a credible degree of pre-commitment may be 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 (US) or can be changed only by a very "direct" democratic process (Switzerland). A different approach is to limit the power of Leviathan through such devices as a free press which 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. Combined with the existence of a credible constitutional means of removing leaders from power, such "information" systems 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

[27] Alesina, Spolaore, and Wacziarg (2000) provide a useful review of the empirical and theoretical literature on the trade-offs between political heterogeneity and the economic gains of market size: their conclusion is that globalization on the whole fosters political separatism.

[28] See Bahl and Tumennasan (2002) for discussion of this case.

sometimes seem in practice, they are theoretically always superior to dictatorial alternatives. As Winston Churchill reportedly once said, "democracy is the worst of all political systems…except for all the rest." 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" is certainly not unknown elsewhere – in Canada, for example, where fear of adverse economic consequences is thought by some to be the main deterrent to Quebec separatism.

- Finally, the loyalty of potential territorial dissidents may simply be bought, at least for a time. "Pork-barrel politics", as this process has been labeled in the United States, may not only grease the wheels of politics but to some extent may even (to mix metaphors) provide the glue that holds the country together. Granting to one's supporters monopoly privileges or rent not only "pays" for their support but also tends to deter "shirking" since what has been given can be taken back. On the other hand, sometimes those who feel their support has been bought may actually be reinforced in their dissident views.[29] Similarly, those who feel they are paying may become increasingly resentful of the burden over time. To the extent significant groups see a country as being worth while only so long as it is "profitable" for them, increased global pressures may have possibly serious consequences for the continued existence of some countries. Under pressure, the glue may turn into a solvent.

Of course, in some instances, globalization may 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. On the other hand, if the result of increasing economic openness is to give new economic and fiscal strength to the regions, while weakening the central treasury, centrifugal pressures may be exacerbated rather than alleviated. Either some regions will feel more able to stand alone or, alternatively, they may want to break away more to hide their heads from the winds of global change than to flourish independently. If 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 increased tension -- tension that may perhaps be alleviated only by directing anger at some "foreign villain," at the extreme through *jihad* (Barber, 1995).

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 rich or poor
- Whether it is large or small

---

[29] As Hirchman (1971) noted with respect to foreign aid, for example, people may take your money, given for purposes with which they are not in agreement, rationalize the apparent betrayal of their beliefs by doing so, and continue to hold those beliefs.

- 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.

At most, at present listing such factors sets up a research agenda since it is generally far too soon to say how important such factors may be in different countries are 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.

Since no reward comes without risk, however, what goes up may also come down. Increased economic openness may well raise income levels, but it also 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, 2002). Decentralization within a national framework may thus be viewed as to some extent a defensive maneuver to protect both regional and national interests, which are congruent to this extent at least.

All in all, both general considerations and more detailed examination of the very diverse national experiences around the world suggest that at the very least we might all do well to remember something Charles Darwin reportedly once said, namely, that "It is not the strongest species that survive, nor the most intelligent, but the ones most responsive to change."[30] With respect to decentralized political and fiscal institutions, the interaction of globalization and decentralization is currently putting this theory of evolution to the test.

Conclusion

Many countries around the world are currently decentralizing, to various degrees, in various ways, and for various reasons. No matter what form decentralization takes, its fiscal aspect is always important and sometimes dominant in determining outcomes. Intergovernmental fiscal relations – the assignment of expenditures and revenues and the size and design of intergovernmental fiscal transfers – may play an especially critical role in "fragmented" nations, those in which territorially-based linguistic or ethnic groups live together within the boundaries of a single nation-state. By granting such groups greater authority to raise and spend revenues as they see fit, social and political harmony may be enhanced in some circumstances. In other circumstances, however, freeing such groups from central control may encourage separatist tendencies and ultimately the

[30] Unfortunately, I have not been able yet to track down the exact source of this quotation.

disintegration of the nation. While many other factors of course also affect the extent to which subsidiarity in the fiscal sphere may affect national solidarity, money definitely matters. How it is raised, distributed, and spent may thus be an important determinant of the extent to which societies that are fragmented are able to sustain a viable and effective national government.

My focus in this discussion has been primarily on fiscal relations between nation-states and major regional or intermediate governments. This focus obviously leaves out much of interest. For instance, some have argued that that the more important economic questions relate to lower-tier (local/municipal) governments, especially with respect to service delivery. Others have (correctly) noted that many "fragments" of the population – aboriginal peoples, Romany, certain ethnic groups – may not be recognized politically even in "representative" democracies because they do not have a recognized territorial basis or for other reasons. Nonetheless, as a rule the potential conflict between recognizing diversity through "subsidiarity" and "solidarity" (equalization) seems generally strongest at the regional level, and all the relevant analytical and theoretical issues can be discussed without the additional complexities of three (or, often, four) levels.

The fiscal window on a country's reality is an important one -- it both reflects more fundamental political, historical, physical, and institutional realities and to some extent shapes them - but it is of course never the whole story. Not simply the traditional fiscal triumvirate of expenditure assignment, tax assignment, and transfer level and design need to be considered but also many other aspects, such as the regional impact of direct central expenditures, the regional impact of central regulations, regional barriers to trade and factor mobility, and so on. Virtually all countries in practice (if seldom in law, or "in constitution" for federal countries) recognize diversity to some extent in the way they establish and run their intergovernmental fiscal systems. Such asymmetric arrangements may in many cases be both economically and politically efficient. An economic analogy might be to something like the Ramsey rule, where differential incentives are needed to elicit uniform responses -- in other words, differentiation may be needed to attain e.g. uniform service delivery, if that is the desired objective. As noted earlier, in political terms, differentiation may be needed to e.g. uplift the poor or assuage the disaffected sufficiently to maintain political stability. In some instances, of course, asymmetrical treatment may accentuate rather than alleviate tensions, as poor regions feel "badly treated" or "inadequately compensated" for some present or past ill or evil, or as rich regions become decreasingly willing to extend what they see as unwarranted largesse to their less-favored fellow citizens.

Viewed from this perspective, the developed federal countries encompass a wide range of experiences, lessons, and solutions, and reinforce strongly the general message of diversity. Much the same is true with respect to many developing and transitional countries. No matter what their level of development, however, countries are so diverse that it is difficult to derive useful generalizations for the details that inevitably appear to dominate country studies. As Bird (2002) suggests, while there are undoubtedly relevant universal principles that should be taken into account in designing intergovernmental

fiscal arrangements, what can and will be done in any particular country is invariably dominated by the local context. The nature of reality in fragmented societies in modern times is that it is difficult to paint a very clear or, often, a very pretty picture of the workings of fiscal federalism. Such, however, is the world in which we live.

References

Acosta, Olga Lucia and Richard M. Bird (2002) "The Dilemma of Decentralization in Colombia," Prepared for Mision de Ingreso Publico, Bogota.

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

Ahmad, Junaid (1998) "South Africa: An Intergovernmental Fiscal System in Transition," in Richard M. Bird and Francois Vaillancourt, eds., *Fiscal Decentralization in Developing Countries* (Cambridge: Cambridge University Press).

Alesina, Alberto, Enrico Spolarore, and Romain Wacziarg (2000) "Economic Integration and Political Disintegration," *American Economic Review*, 90 (No. 5): 1276-96.

Alesina, Alberto et al. (2002) "Fractionalization," Harvard Institute of Economic Research, Discusión Paper No. 1959, June.

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) "Descentralizacion en Latinoamerica desde una perspectiva de paises pequenos: 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. (2001) "Equitable Vertical Sharing and Decentralizing Government Finance in South Africa," Working Paper 01-6, International Studies Program, Andrew Young School of Policy Studies, Georgia State University, May.

Bahl, Roy W. (1999) "Implementation Rules for Fiscal Decentralization," Working Paper #10, International Studies Program, School of Policy Studies, Georgia State University, Atlanta.

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

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

Barber, Benjamin R. (1995) *Jihad vs. McWorld* (New York: Times Books).

Basta, Lifija 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 (2002) "Belgium: A Unique Evolving Federalism," Paper prepared for World Bank Institute.

Bird, Richard M. (1993) "Threading the Fiscal Labyrinth: Some Issues in Fiscal Decentralization," *National Tax Journal*, 46 (June) 207-27.

Bird, Richard M. (2001) "Rationale and Forms of Decentralization," in Bird and Stauffer (2001).

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

Bird, Richard M. (2002) "Intergovernmental Fiscal Relations: Universal Principles, Local Applications," in M. Govinda Rao, ed., *Development, Poverty and Fiscal Policy* (New Delhi: Oxford University Press).

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): 53-74.

Bird, Richard M. and Ariel Fiszbein (1998) "The Central Role of Central Government in Decentralization: Colombia," in Richard M. Bird and Francois Vaillancourt, eds., *Fiscal Decentralization in Developing Countries* (Cambridge: Cambridge University Press).

Bird, Richard M. and Edgard Rodriguez (1999) "Decentralization and Poverty Alleviation: International Experience and the Case of the Philippines," *Public Administration and Development*, 19: 299-319.

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

Bird, Richard M. and Francois Vaillancourt (2001) "Fiscal Arrangements for Maintaining an Effective State in Canada," *Environment and Policy C: Government and Policy*, 19 (no.2): 63-87.

Boadway, Robin and Ronald Watts (2000) "Fiscal Federalism in Canada," Institute of Intergovernmental Relations, Queen's University, Kingston, July.

Breton, Albert (2002) "Federalization (not Decentralization) as an Empowerment Device," Paper for C.D. Howe Institute conference, November.

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.

Chwe, Michael (2001) *Rational Ritual: Culture, Coordination, and Common Knowledge* (Princeton: Princeton University Press).

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 (2003) "Accommodating Asymmetry through Pragmatism: Reflections on Swiss Pragmatism," Paper for World Bank Institute.

Ebel, Robert D. and Serdar Yilmaz (2001) "Fiscal Decentralization: Is It Happening? How Do We Know?" International Studies Program, Andrew Young School of Policy Studies, Georgia State University, Atlanta, April.

Eichengreen, Barry and Jurgen von Hagen (1996) "Fiscal Policy and Monetary Union: Is there a Tradeoff between Federalism and Budgetary Restrictions," National Bureau of Economic Research Working Paper 5517.

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 (2001) "Fiscal Federalism in Bosnia-Herzegovina: The Dayton Challenge," in Bird and Stauffer (2001).

Garcia-Mila, Teresa and Therese J. McGuire (2002) "Fiscal Decentralization in Spain: An Asymmetric Transition to Democracy," Paper for World Bank Institute.

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.

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

Martinez-Vazquez, Jorge (2002) "Asymmetric Federalism in Russia: Cure or Poison?" Working Paper 03-02, International Studies Program, Andrew Young School of Policy Studies, Georgia State 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, Torben and G. Tabellini (2000) *Political Economics* (Cambridge MA: MIT Press).

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

Rao, M. Govinda and Nirvarkar Singh (2003) "Bargaining, Control and Commitment: The Political Economy of Indian Federalism," Paper for World Bank Institute.

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

Rondinelli, Dennis J., John R. Nellis, and G. Shabbir Cheema (1984) "Decentralization in Developing Countries: A Review of Recent Experience," World Bank, Washington.

Ruiz Almendar, Violeta (2002) "Fiscal Federalism in Spain: The Assignment of Taxation Powers to the Autonomous Communities," Universidad Carlos III, Madrid.

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

Schneider, Aaron (2002) "Who Gets What from Whom? The Impact of Decentralization on Tax Capacity and Pro-Poor Tax Policy," Institute of Development Studies, University of Sussex.

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," Toronto.

Spahn, Paul Bernd and Oliver Franz (2002) "Consensus Democracy and Interjurisdictional Fiscal Solidarity in Germany," Paper for World Bank Institute.

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 and Richard M. Bird (2002) "Changing with the Times: Success, Failure and Inertia in Canadian Federal Arrangements, 1945-2001," Working Paper No. 151, Center for Research on Economic Development and Policy Reform, Stanford University.

Vinuela, Juan (2001) "Fiscal Decentralization in Spain," Paper prepared for IMF Conference.

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 Federalism in Sri Lanka," 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.

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: Perennial).

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).