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*Review Article*  
FEDERALISM IN EUROPE AND  
LATIN AMERICA  
Conceptualization, Causes,  
and Consequences

By KENT EATON\*

Alberto Diaz-Cayeros. *Federalism, Fiscal Authority and Centralization in Latin America*. New York: Cambridge University Press, 2006, 277 pp.

R. Daniel Kelemen. *The Rules of Federalism: Institutions and Regulatory Politics in the EU and Beyond*. Cambridge: Harvard University Press, 2004, 244 pp.

Erik Wibbels. *Federalism and the Market: Intergovernmental Conflict and Economic Reform in the Developing World*. New York: Cambridge University Press, 2005, 276 pp.

Daniel Ziblatt. *Structuring the State: The Formation of Italy and Germany and the Puzzle of Federalism*. Princeton: Princeton University Press, 2006, 220 pp.

AS an idea about how to organize political power, federalism has received a great deal of attention in recent years. Thus, although federal institutional designs are certainly not new, they have become more prominent as a result of the combined effects of four widespread and roughly simultaneous trends: democratization, economic liberalization, decentralization, and the worsening of intrastate armed conflicts. With respect to democratization, transitions from authoritarianism and state socialism in the 1980s and 1990s in a number of important countries suddenly infused new meaning into preexisting federal arrangements.<sup>1</sup> At the same time, dividing power between national and subnational governments—the hallmark of federalism—has appealed to pro-democracy advocates looking for ways to reduce the possibility of future authoritarian rule.<sup>2</sup> In still other cases, the persistence of subnational

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<sup>1</sup> Valerie Bunce, *Subversive Institutions: The Design and Destruction of Socialism and the State* (New York: Cambridge University Press, 1999).

<sup>2</sup> Larry Diamond, ed., *Developing Democracy* (Baltimore: Johns Hopkins University Press, 1999).

authoritarian practices has complicated efforts to deepen democracy in federations that have made the formal transition to democracy at the federal level.<sup>3</sup> In these and other ways, democratization has cast renewed attention on federalism.

With respect to economic policy, the widespread adoption of market-oriented models has likewise highlighted the potential significance of federal designs. Whereas in the last century the pursuit of all major nonorthodox economic models from Keynesianism to Marxism emphasized the importance of decision making at the national level, the shedding of economic roles by national governments more recently has created a number of opportunities (and challenges) for subnational constituent units in federal systems. In some cases, competition for investment capital between these units appears to have improved the prospects for market-driven economic growth.<sup>4</sup> In others, officials in subnational units have used their powers to adopt fiscal practices that are largely incompatible with liberal economic approaches and that lead to failures of fiscal coordination across levels of government.<sup>5</sup> In either scenario, it has become harder to understand national economic outcomes without first understanding the economic behavior of subnational governments.

Turning to decentralization, not only has the adoption of a range of decentralizing measures made federal systems more federal, but it has also shifted scores of formally unitary countries into the gray zone between federalism and unitarism. Unitary countries continue to outnumber federations by far in today's world, but the federal principle has become more important even in countries that eschew the federal label. Many national actors in unitary countries have embraced decentralization as a way of defusing what they believe to be more threatening demands for federalism. Nevertheless, the cumulative effect of incremental decentralizing reforms in unitary countries, including the devolution of tax bases and the introduction of elections for intermediate-level governments, is unmistakably to shift these countries in a federal direction. Decentralization and federalism are distinct concepts, but the popularity of the former has pushed many countries toward the latter.<sup>6</sup>

<sup>3</sup> Edward L. Gibson, "Boundary Control: Subnational Authoritarianism in Democratic Countries," *World Politics* 58 (October 2005).

<sup>4</sup> Gabriella Montinola, Yingyi Qian, and Barry R. Weingast, "Federalism, Chinese Style: The Political Basis for Economic Success in China," *World Politics* 48 (October 1995).

<sup>5</sup> Jonathan Rodden, *Hamilton's Paradox: The Promise and Peril of Fiscal Federalism* (New York: Cambridge University Press, 2006); Daniel Treisman, *The Architecture of Government: Rethinking Political Decentralization* (New York: Cambridge University Press, 2007).

<sup>6</sup> For a cross-regional survey of decentralization, see Philip Oxhorn, Joseph Tulchin, and Andrew Selee, eds., *Decentralization, Democratic Governance and Civil Society in Comparative Perspective: Africa*,

Finally, in the years since the end of the cold war, the increasing incidence and severity of internal armed conflicts and intrastate civil wars has deepened interest in federalism as an institutional strategy to accommodate regional and ethnic diversity.<sup>7</sup> As intrastate conflict has eclipsed interstate conflict as the more common source of political violence in the world today, federalism has emerged as an important option for those who would seek to engineer institutions that can provide security in postconflict environments.<sup>8</sup> Even recent interstate conflicts, including the wars between the U.S. and Afghanistan, Iraq, and Serbia, have triggered serious debate about how federalism and territorial autonomy might enhance stabilization in the postconflict period.

Because these four trends are global in scope, federalism virtually everywhere has attracted much more interest as an object of study. It has of late generated a particularly vibrant literature in Europe and Latin America, where federalization and the resurgence of territorial interests and identities more generally stand in sharp contrast to long-standing patterns of state building. In both regions the consolidation of the state in different historical moments (Europe in the early modern period and Latin America in the nineteenth century) involved mostly successful attempts by state builders to replace territorial cleavages with functional cleavages.<sup>9</sup> In each case state building involved the suppression of territorial identities, the muting of territorial conflicts, and the growing importance of struggles between functional groups that did not threaten the center's claim to sovereignty over national territory. In contrast to the construction of what has been called a compound state

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*Asia and Latin America* (Washington, D.C.: Woodrow Wilson Center Press, 2004). On Latin America, see Alfred Montero and David Samuels, eds., *Decentralization and Democracy in Latin America* (Notre Dame, Ind.: University of Notre Dame Press, 2004).

<sup>7</sup> For the argument that federalism and regional autonomy can help promote stability, see Nancy Bermeo, "The Import of Institutions," *Journal of Democracy* 13, no. 2 (2002), 96–110; David Lake and Donald Rothchild, "Containing Fear: The Origins and Management of Ethnic Conflict," *International Security* 21, no. 2 (1996); and Barbara Walter, "Designing Transitions from Civil War: Demobilization, Democratization and Commitments to Peace," *International Security* 24, no. 1 (1999).

<sup>8</sup> For more pessimistic views about federalism and conflict, see Rogers Brubaker, *Nationalism Re-framed: Nationhood and the National Question in the New Europe* (New York: Cambridge University Press, 1996); Jack Snyder, *From Voting to Violence: Democratization and Nationalist Conflict* (New York: W. W. Norton, 2000); and Philip Roeder and Donald Rothchild, eds., *Sustainable Peace: Power and Democracy after Civil Wars* (Ithaca, N.Y.: Cornell University Press, 2005). On nation-state crises in segmented states, see Philip Roeder, *Where Nation-States Come From: Institutional Change in the Age of Nationalism* (Princeton: Princeton University Press, 2007).

<sup>9</sup> On Europe, see Stefano Bartolini, "Old and New Peripheries in the Processes of European Territorial Integration," in Christopher Ansell and Guiseppe di Palma, eds., *Restructuring Territoriality: Europe and the United States Compared* (New York: Cambridge University Press, 2004). On state formation in Latin America, see Miguel Centeno, *Blood and Debt* (University Park: Penn State University Press, 2002); and Fernando López-Alves, *State Formation and Democracy in Latin America, 1810–1900* (Durham, N.C.: Duke University Press, 2000).

in the U.S., which sought to accommodate rather than suppress territorial cleavages, the growing importance of territorial claims and new demands for federalism in Europe and Latin America suggest a return to a much earlier pattern of politics, one that predates the consolidation of the state.<sup>10</sup> Put slightly differently, whereas federalism has remained an important organizing principle in the U.S. from its inception, Europe and Latin America have only relatively recently witnessed renewed and serious debates over the adoption of federal principles, as demonstrated most clearly in the construction of a federal European Union (EU) and in the increasingly raw struggles over the redesign of subnational institutions in much of Latin America.<sup>11</sup>

If Europe and Latin America are especially dynamic regions in which to study federalism, the four books reviewed here are among the most innovative and sophisticated exemplars in the growing literature on federalism in each region. Writing on European politics, R. Daniel Kelemen argues that regulation by the EU directly reflects the federal structure of its decision-making institutions, not unlike regulation in the four federal states (Australia, Canada, Germany, and the U.S.) with which Kelemen systematically compares the EU. Also writing on Europe, though about an earlier period, Daniel Ziblatt focuses not on the consequences of federalism but on its origins. He poses the question: why did nineteenth-century state builders in Germany and Italy, equally committed to federal principles as they were, ultimately follow different paths—adopting federalism in the former and unitarism in the latter. The two Latin American titles also differ in their focus on contemporary and historical periods. Erik Wibbels explores the impact of federalism on the adoption and sustainability of market reforms within the last two decades, considering in depth the consequences of Argentine federalism for that country's economic adjustment process in the 1990s and 2000s. Broadening the period of study to include most of the twentieth century, Alberto Diaz-Cayeros investigates the causes of fiscal centralization in Latin America's four federations, attributing successful centralizing drives to changes in the structure of political parties. Thus, whereas Diaz-Cayeros and Ziblatt focus on earlier historical periods and emphasize struggles over the design of federal institutions,

<sup>10</sup> Sergio Fabbrini, "The European Union in American Perspective: The Transformation of Territorial Sovereignty in Europe and the United States," in Ansell and di Palma (fn. 9).

<sup>11</sup> Federalism has also begun to receive greater attention in the literature on India and Nigeria. On India and a special edition on Indian federalism, see *Publius* 33 (Fall 2003). On Nigeria, see Rotimi Suberu and Larry Diamond, "Institutional Design, Ethnic Conflict Management and Democracy in Nigeria," in Andrew Reynolds, ed., *The Architecture of Democracy* (New York: Oxford University Press, 2002).

Kelemen and Wibbels study the contemporary period and investigate the consequences of federalism for a range of regulatory and economic policy outcomes.<sup>12</sup>

Though motivated by different research questions and focused on different time periods, the four authors share a number of commonalities that make comparison of their ambitious volumes more feasible than would otherwise be the case. First, all are fully conversant with the new institutionalism and draw heavily on the methodological individualism that is at the heart of rationalist approaches to the study of institutions. As Diaz-Cayeros sees it, for example, Mexican subnational politicians abdicated fiscal authority and endorsed the creation of more centralized fiscal institutions only once national party leaders were able to convince them that their individual political careers would not suffer as a result. For Kelemen, when policy-making power is divided between separately constituted executive and legislative branches at the federal level, this incentive structure encourages federal officials in both bodies to refrain from granting regulatory discretion to subnational officials. For Wibbels, higher levels of political competition between subnational politicians create incentives for these politicians to shift from clientelism toward the provision of public goods, thereby smoothing the way for national attempts at market reform. Alone among the authors, Ziblatt takes his cues more from historical institutionalism than from rational institutionalism. He holds that Germany adopted federal institutions in the 1870s largely because of the existence of constituent units (for example, Bremen, Hamburg) that had already developed high levels of institutional capacity; in Italy, by contrast, the absence of units with similar levels of capacity foreclosed the federal option and generated instead a unitary outcome. Taken together, these books show that federalism can complement other fields of study—including presidentialism, cabinet formation, and electoral rules—that had received earlier and greater attention from the new institutionalists.

Beyond their engagement with the literature on institutions, all four authors also focus on politicians and on the various structural, electoral, and partisan incentives they face. Thus, in each volume, the causal story is driven by the calculations of national and subnational politicians. Societal interests as such do not figure prominently in the causal

<sup>12</sup>In addition to these four single-authored books, this review also draws on three important edited volumes that have recently been published on federalism: Ugo Amoretti and Nancy Bermeo, eds., *Federalism and Territorial Cleavages* (Baltimore: Johns Hopkins University Press, 2004); Edward Gibson, ed., *Federalism and Democracy in Latin America* (Baltimore: Johns Hopkins University Press, 2004); and Ansell and di Palma (fn. 9).

arguments advanced by any of these authors, though societal groups *do* appear in these works in various places. Kelemen, for example, looks at firms whose threats lead subnational governments to water down environmental legislation, while Wibbels notes that interest-group coalitions can shape politicians' incentives, and Ziblatt contrasts the institutional preferences of state and societal actors in Germany and Italy. But at the heart of each book is a set of interactions between politicians who control different governmental units and who use this control to bargain over policy outputs and institutional designs. This focus on bargaining clearly demonstrates the profound continuing impact of William Riker's work on the study of federalism, even though much of the new research challenges parts of the Rikerian framework.<sup>13</sup> Thus, while Diaz-Cayeros finds evidence in Mexico to confirm Riker's emphasis on the distribution of military power within federal systems, Ziblatt challenges Riker by arguing that infrastructural capacity is more important than military capacity in bargaining over the decision to federalize. Similarly, while Wibbels agrees with Riker that political parties powerfully influence the performance of federal systems, he argues that party discipline is less important than the operation of coattail effects within parties.

This review is organized in three sections. The first section discusses the conceptual disagreements that continue to characterize the study of federalism. Continuing a long tradition in the federalism literature, each of these four authors adopts a different definition of the term. Not only do these disagreements over definitions lead to some confusion about whether a given country at a given time can be considered federal, but they also complicate the development of more robust theories about federalism. The second section turns to the causes of federalism, a question that has become more important in recent years as unitary countries increasingly contemplate federal options. Due to its focus on design questions, this section hews closely to the work of Ziblatt and Diaz-Cayeros, although it is important to note that Kelemen and Wibbels, despite their focus on consequences, also offer insights into the origin and evolution of federal institutions. The third section considers the consequences of federalism, reviewing the Kelemen and Wibbels books and putting their work in dialogue with recent scholarship on the possible "market-preserving" effects of federal institutions. The article concludes with a discussion of avenues for future research.

It is important to note at the outset that, while this review distinguishes between the causes and consequences of federalism, it would be

<sup>13</sup> William Riker, *Federalism: Origin, Operation, Significance* (Boston: Little Brown, 1964).

a mistake to treat these two questions as wholly separate or separable. Indeed, as Alfred Stepan's work on federalism has demonstrated, certain causal pathways toward federation (for example, "coming together" forms of federalism) are likely to generate particular outcomes (for example, "demos constraining" outcomes that constrain the federation's median voter in order to convince all of the constituent units that it is indeed safe to "come together").<sup>14</sup> In other words, distinguishing between the two questions of causes and consequences is a useful organizing principle for this review essay, but scholars should build on Stepan's insight by explicitly bridging these questions.

### CONCEPTUAL AND DEFINITIONAL CHOICES

To the credit of the authors, the books under review provide straightforward definitions of federalism. Although their definitions overlap to some degree, the authors have also made substantially different definitional choices, as captured in Table 1. For Zibblatt, federalism implies "three constitutionally-embedded institutional characteristics . . . : (1) formal and informal access of subnational governments in the decision-making process of national governments, (2) subnational public finance . . . discretion, and (3) administration autonomy of regional governments" (p. 5). In contrast to this three-part definition, Wibbels and Diaz-Cayeros focus on just two necessary and sufficient conditions. For Wibbels, a country is federal if its regions (1) are represented in the national legislative body and (2) have an elected legislature of their own (p. 26). Diaz-Cayeros emphasizes two quite different conditions: (1) "state (or provincial) executives must emerge from elections held within a state (provincial) jurisdiction independently from the national one," and (2) "states (provinces) must possess inherent fiscal authority" (p. 10). Given his focus on a nonstate actor, the EU, Kelemen does not define what makes a state federal; in fact one of the main departure points for his study is that we should not "conflate the principle of federalism with the federal state" (p. 7).<sup>15</sup> By arguing that federalism requires merely "the vertical division of authority between central and state governments" (p. 1), Kelemen provides the least restrictive definition of the four authors.

Comparing definitions, four differences stand out. First, with respect to the formal access or representation of subnational governments in the national government, this requirement appears only in the defini-

<sup>14</sup> Alfred Stepan, "Toward a New Comparative Politics of Federalism, Multinationalism and Democracy: Beyond Rikerian Federalism," in Gibson (fn. 12) See also Gibson's introductory chapter in this volume.

<sup>15</sup> Montinola, Qian, and Weingast (fn. 4) make a similar point.

TABLE 1  
 CONCEPTUAL DIMENSIONS UNDERLYING COMPETING UNDERSTANDINGS  
 OF FEDERALISM

<i>Necessary Condition</i>	<i>Diaz-Cayeros</i>	<i>Keleman</i>	<i>Wibbels</i>	<i>Ziblatt</i>
1. Access of subnational governments to national government	no	no	yes	yes
2. Subnational discretion over public finance	yes	no	no	yes
3. Administrative autonomy of subnational governments	no	no	no	yes
4. Election of state/provincial executives	yes	no	no	no
5. Election of state/provincial legislatures	no	no	yes	no
6. Vertical division of authority	yes	yes	yes	yes

tions of Ziblatt and Wibbels.<sup>16</sup> Second, Ziblatt believes that federalism requires that subnational governments have both fiscal and administrative powers, Diaz-Cayeros believes that it requires fiscal but not administrative powers, and Wibbels stipulates that neither fiscal nor administrative powers are necessary. Third, with respect to subnational elections, Ziblatt's definition does not specify how subnational governments must be constituted, only that they have access to the national government, while the definitions offered by both Diaz-Cayeros and Wibbels specify the need for electoral mechanisms at the subnational level.<sup>17</sup> Finally, although the definitions of both Diaz-Cayeros and Wibbels require subnational elections, for the former it is the election of the subnational *executive* branch that is critical while for the latter the election of the subnational *legislative* branch is key. Beyond these four authors, other recent literature on federalism emphasizes still other variables in the definition of federalism, including bicameralism,

<sup>16</sup> Like Ziblatt and Wibbels, Kelemen's empirical work focuses on subnational participation in the national government, but he shows that this participation does not have to take place in the national legislature. He does this by exploring the importance of new arenas for intergovernmental decision making, such as the Canadian Council of Ministers of the Environment and the U.S. Environmental Council of the States.

<sup>17</sup> Thus, in their different views on the need for elections, Ziblatt, Diaz-Cayeros, and Wibbels appear to replay earlier disagreements about whether federalism requires democracy. For example, whereas Robert Dahl, Juan Linz, and Alfred Stepan have all argued that only a democracy can be a federal system, William Riker believed that democracy did not necessarily constitute part of the definition of federalism. For a review of this debate, see Stepan (fn. 14), 31–33.

judicial review, and the power of the central and constituent governments to make final decisions.<sup>18</sup>

Conceptual disagreements raise a number of issues. First, it can be quite difficult to use this new literature on federalism to determine whether a particular country is federal or not. Consider the important case of Colombia, which shifted from federalism to unitarism at the end of the nineteenth century and then moved back toward federalism at the end of the twentieth century in its search for a political settlement to its devastating armed conflict.<sup>19</sup> Using Diaz-Cayeros's definition, Colombia should probably count as federal because the 1991 Constitution introduced direct and separate elections for departmental governors and enabled departments to contract debt without approval from Bogotá. Although Wibbels considers post-1991 Colombia to be one of the world's ten federations, his own definition would suggest that it falls considerably short of federalism because departmental assemblies can issue norms but not laws and because the departments are not represented in Colombia's bicameral legislature.<sup>20</sup> Indeed, at the same time that gubernatorial elections were introduced in 1991, Colombia replaced its territorially organized Senate with a Senate whose members would instead be elected in a single, nationwide district, reducing regional representation in the national government. While these definitional disagreements bedevil attempts by scholars to agree on the categorization of countries as federal, it is important to note that ambiguity about what federalism means on the ground can often serve the interests of politicians. Again in Colombia, where the nineteenth-century experience with federalism was tumultuous and where the term remains historically fraught, ambiguity enables politicians whose aspirations are clearly federal to avoid the federal label.

More important, perhaps, than agreement among academics that a given country is federal, different conceptualizations also impact the evaluation of theoretical arguments about the causes and consequences of federalism. For example, Ziblatt's quite restrictive definition may in practice limit the testing of his general theory of federalism to economically more developed countries. High levels of administrative centralization throughout the developing world, particularly over governmental personnel, have profoundly limited the administrative

<sup>18</sup> See, for example, Ugo Amoretti, "Federalism and Territorial Cleavages," in Amoretti and Bermeo (fn. 12), 9–10.

<sup>19</sup> See Kent Eaton, "The Downside of Decentralization: Armed Clientelism in Colombia," *Security Studies* 15 (October–December 2006).

<sup>20</sup> *Constitución Política de la República de Colombia*, Articles 300 and 133.

autonomy that Ziblatt sees as a necessary component of federalism. Diaz-Cayeros's focus on subnational executives rather than on subnational legislators would likewise affect how one might evaluate his theory of fiscal centralization. Specifically, if Wibbels is right and subnational legislators deserve to be included in the definition of federalism, such a definition would alter (and expand) the set of subnational politicians who would be subject to the bargaining dynamic between national and subnational politicians that Diaz-Cayeros examines. Diaz-Cayeros's focus on subnational executives alone does not appear to be a problem in Latin America, where subnational legislators are generally weak, but it would likely be an issue if his theory were applied to regions like Western Europe, for example, where legislators below the national level are more relevant.

Different conceptualizations are also important because they reflect disagreement about the most significant dimensions along which federal systems differ from one another. Understanding variation within federalism is an increasingly salient research question, but the identification of the most important differences remains contested. For example, some of the definitions cited above suggest that it is the terms under which subnational governments are represented at the center that would generate the most important variation. This should focus our attention on the scale of the districts in which national legislators are elected, along with the degree of asymmetry between lower and upper chambers. In contrast, Diaz-Cayeros's emphasis on the independence of gubernatorial elections suggests we should take seriously such institutional factors as candidate selection for subnational races, the timing of electoral calendars, and the possibility for voters to split their ballots between candidates of different parties when national and subnational elections are held concurrently. According to Wibbels's definition, we would want to study variation in the institutional capacity of subnational legislatures and in the degree of political competition that characterizes elections for these bodies. Finally, for Kelemen, cross-national variation in the amount of discretion that subnational governments enjoy in federal systems results from a variable that is not even inherent in federalism, namely, the degree to which power is fragmented at the national level between executives and legislators.

Greater consensus on the core dimensions along which federal systems vary is urgent as scholars become more interested in describing both emerging and historic subtypes of federalism. Not unlike the case of "democracy with adjectives," we are witnessing the proliferation of

“federalism with adjectives.”<sup>21</sup> Consider the following adjectives that have been used recently to modify federalism: asymmetric, coming-together, demos-constraining, demos-enabling, executive, hegemonic, holding-together, liberal, market-distorting, market-preserving, mononational, multinational, peace-preserving, plural, proportional, putting-together, reallocative, and symmetric.<sup>22</sup> This nonexhaustive list signals the end of a lengthy period in which the discussion of variation within federalism was dominated by Riker’s singular distinction between centralized and decentralized federalism.

Finally, these definitions of federalism obviously also have implications for the definition and study of unitary systems. Some of the above definitions paint a misleading or inaccurate picture of unitary governments. For example, Kelemen’s expansive definition of federalism vastly shrinks the set of countries that could be considered unitary, since only countries that deny subnational governments any authority could be counted as such. Precisely because the ongoing wave of decentralization has not discriminated between federal and unitary systems, subnational governments in scores of unitary countries now enjoy significant forms of authority. As another example, Wibbels asserts that “absent the divergent incentives, political autonomy and fiscal resources characteristic of federalism, subnational officials in unitary systems are responsible to their central governments.”<sup>23</sup> In fact, over the past two decades the introduction or strengthening of elections at both the municipal and the intermediate levels has given subnational officials substantial political independence from the center in such disparate unitary countries as Bolivia, Cambodia, Chile, the Philippines, and South Africa.

## CAUSES

For most of the twentieth century studying the causes of federalism held more interest for the historian than it did for those interested in contemporary politics. In a century marked by authoritarian reversals and centralized economic development strategies, the adoption of federal institutions was infrequent, and movements for or against federalism did not register as important enough to merit serious study. When federalization did occur, as when the Soviet Union adopted a federal

<sup>21</sup> David Collier and Steven Levitsky, “Democracy with Adjectives: Conceptual Innovation in Comparative Research,” *World Politics* 49 (April 1997).

<sup>22</sup> These adjectives can be found in the previously cited works by Amoretti and Bermeo, Gibson, Rodden, Stepan, Wibbels, and Ziblatt.

<sup>23</sup> Wibbels, *Federalism and the Market*, 61.

constitution in 1924, Kremlinologists correctly judged that this was not exactly the most important aspect of the Soviet experience to study. Given its role in producing an impressive degree of political stability, the adoption of a federal constitution in India at midcentury is one very important exception to the general rule that federalization probably did not deserve sustained attention from political scientists. But by the end of the twentieth century, debates over federalism did take on importance in some of the world's most significant and dramatic political events, including the transition to democracy in South Africa, attempts by the generals in Indonesia to prevent regional fragmentation in the aftermath of Suharto's fall, and the search for an end to decades of conflict between the north and south in Sudan. Not all countries that debated federalism became federal—according to most definitions, in fact, South Africa, Indonesia, and Sudan did not. Nevertheless, explaining the choice between federal and unitary options suddenly became more urgent as a question for political science.

In this section, I broaden the discussion of institutional design to include not only the initial phase of deciding to adopt a federal rather than unitary form but also the subsequent phase in which changes are introduced to federal institutions once they have been established. As the literature on federalism expands, we need to understand not only what leads countries to federalize but also why actors in these countries then opt to redesign federal institutions.<sup>24</sup> Just as important as the initial decision to opt for federalism are the subsequent changes that redistribute resources and authority along at least two main dimensions: between federal and constituent governments and, sometimes even more acrimoniously, between the constituent governments themselves. The following paragraphs focus first on the origins of federalism, which is Ziblatt's central concern, and second on its evolution over time, which is the question that motivates Diaz-Cayeros.

To explain the puzzle of why Germany became a federation upon national unification while Italy became a unitary republic, Ziblatt assessed the most influential theory available on the causes of federalism, that of Riker, and found it wanting. Germany and Italy in the mid-nineteenth century would appear to lend themselves well to Riker's framework, which understood the shift in the U.S. from a confederation of thirteen states to a federal government in the 1780s as a response to threats posed by the European powers. In the small states

<sup>24</sup> On the question of change in federalism over time, see also Mikhail Filippov, Peter Ordeshook, and Olga Shvetsova, *Designing Federalism: A Theory of Self-Sustainable Federal Institutions* (New York: Cambridge University Press, 2004).

and principalities that became Germany and Italy, external threats in the mid-nineteenth century were also significant, and they certainly encouraged politicians in the political core of each (for example, Prussia and Piedmont, respectively) to embrace federal principles. But only Germany became federal, for reasons that Riker cannot explain. Specifically, Riker argued that the military incapacity of a political core vis-à-vis the other units it wishes to incorporate forces it to accept federalism. Ziblatt finds the opposite to be true. While Prussia enjoyed higher levels of military capacity than did Piedmont with respect to the units that each sought to incorporate, it was Germany and not Italy that became federal.

Ziblatt accounts for the distinct institutional outcomes in Germany and Italy by offering a general theory of federalism that replaces military capacity as the operative variable with what he calls “infrastructural capacity” (more commonly referred to as “state capacity” in much of the comparative politics literature).<sup>25</sup> In Germany the existence of units with “the ability to tax, maintain order, regulate society and generally govern their societies” (p. 3) enabled a process of negotiation between core and periphery that resulted in federalism. Italy, by contrast, shows that where the political core faces “infrastructurally underdeveloped states,” the weakness of these states makes negotiation less likely and the formation via conquest of a unitary political system more likely. To the extent that military might matters, Ziblatt finds that Prussia’s greater military capacity actually facilitated federalism by enabling it to make concessions that a weaker political core (such as Piedmont) could not. Ziblatt assesses this theory by assembling data that demonstrate the greater extractive, coercive, and regulatory capacity of regional governments in Germany relative to Italy and by showing that his state-centered argument explains federal versus unitary outcomes in a larger set of seventeen West European countries. Finally, for the German case, Ziblatt explains not just the adoption of federalism but also the creation of a rather decentralized version of federalism. “With effective systems of tax administration already in place in every single state” (p. 138), Germany settled on a type of federalism that granted the *länder* high levels of discretion in public finance and administrative autonomy.

Considering that Ziblatt is studying European political events that occurred more than a century ago, his work is surprisingly timely and relevant to current debates over federalism in developed and develop-

<sup>25</sup> For another study that uses infrastructural capacity as a window onto federalism, see Kathryn Stoner-Weiss, *Resisting the State: Reform and Retrenchment in Post-Soviet Russia* (New York: Cambridge University Press, 2006), 77–97.

ing contexts alike. Consider, for example, one of his core findings, that strong regional inequalities in the level of political and administrative development are incompatible with federalism, as demonstrated by the Italian case. If history tells us that federalism requires some degree of equality in capacity across constituent units, this lesson suggests that expanding the set of member states in the EU to include lower-capacity states is likely to compromise the construction of a federal EU. In the past structural funds for lesser developed subnational regions have been used to bolster the common market, but Ziblatt's work suggests that state building in a deeper sense might have to precede further progress toward a particularly *federal* future for the EU. Beyond Europe, Ziblatt's emphasis on subnational capacity also resonates strongly in the developing world. As in nineteenth-century Italy, weak infrastructural power at the subnational level has prompted highly centralized patterns of governance in much of Asia, Africa, and Latin America. Frustration with the failures of centralism has generated in turn a pronounced trend toward the decentralization of resources and authority to subnational governments. But what has not been transferred or built up in most developing countries is infrastructural capacity commensurate with the new and important responsibilities that have been assigned to subnational governments. The decentralization of education, health care, and a range of other important services has exposed the low levels of capacity that characterize many subnational governments. The conclusion one can draw from Ziblatt's work is that successful federalism may not emerge anytime soon in large parts of the developing world.<sup>26</sup>

Ziblatt's work is also interesting because of the factors that he finds less important as causes of federalism, including ideological commitment and the historical embeddedness of subnational regions. With respect to ideology, both Bismarck and Cavour were equally committed to federalism, but differentially able to transform this commitment into reality. Thus, the growing numbers of converts to federalism in recent years may not presage the actual creation of new federations. Likewise, the emergence of different institutional outcomes in Germany and Italy—two countries with deeply embedded regional identities—suggests that the strength of loyalties to subnational territorial units may be less important for explaining whether federalization occurs than is the capacity of these units.

<sup>26</sup> Similar to Ziblatt, Edward Gibson and Tulia Falletti argue that "interregional" dynamics between more and less developed subnational regions are critical factors in the origins of Argentine federalism. See Gibson and Falletti, "Unity by the Stick: Regional Conflict and the Origins of Argentine Federalism," in Gibson (fn. 12).

As an argument that is no less elegant than Riker's, Ziblatt's book is subject to some of the same criticisms that can be made whenever a simple model is used to explain complex phenomena. Ziblatt responds masterfully to the complexity of his cases in the political histories that he compiles, but several factors loom large in the case detail on Germany and Italy that do not figure in his theoretical model. For example, judging from Ziblatt's own account, external factors appear to play a substantial role in explaining the divergence between German federalism and Italian unitarism. In Italy, for example, the fear of foreign invasion by the French and Austrians facilitated Piedmont's military conquests, and a long history of foreign occupation (absent in Germany) was important in explaining popular support for a more highly centralized form of unification in Italy (p. 105). By contrast, the desire to allay French, British, and Austrian fears of an overly powerful Prussian-led Germany appear to have heightened the appeal of federalism within Germany (p. 111). Beyond the external dimension, higher levels of political instability in Italy (for example, the flight of the Sicilian king) seem at times to be as important as state incapacity in explaining the unitary outcome. Further, as Ziblatt notes, the incapacity of subnational regions in Italy resulted at least in part from earlier, militarized responses by Piedmont to political instability. Finally, further conceptual precision in the contrasting of "military" and "infrastructural" capacity may be justified. Although Ziblatt's decoupling of these two types of capacity opens up the possibility of regions with high levels of military capacity and low levels of infrastructural capacity (and vice versa), he considers "access to military manpower" (p. 13) to be at least one component of infrastructural power. If these two forms of capacity are not fully distinct, however, this complicates arriving at an unambiguous identification of regions that have different measures of military and infrastructural capacity, an identification that would be necessary for assessing the relative merits of Riker's and Ziblatt's theories more widely.

Moving beyond the question of what causes federalism, how can we account for change within federal systems over time? When political actors adopt federalism, they also have to decide how to distribute governing authority between different levels of government, decisions that are often revisited when politicians at these different levels interact in subsequent periods. For example, the four Latin American countries that were constituted as federations after independence in the nineteenth century—Argentina, Brazil, Mexico, and Venezuela—experienced substantial political conflict in the following century over the division of fiscal authority between the federal and state/provin-

cial governments. In each of these countries, as Diaz-Cayeros demonstrates, national politicians sought to centralize fiscal authority in the federal government by wresting taxing authority from subnational governments. They often succeeded, as is reflected in the highly centralized approach to tax collection that continues to characterize Latin America as a region.

But how did national politicians succeed—and why in only some cases? Diaz-Cayeros offers answers to both questions. First, when subnational governments understandably resisted attempts to take away their tax bases, national politicians responded by offering to share with them a portion of the revenues that the federal government would collect. Typically, however, the federal government faced a significant commitment problem as subnational governments sought credible guarantees that the federal government would honor its revenue promises. Whereas most of the research on federalism has overlooked this commitment problem by assuming credible transfers, Diaz-Cayeros problematizes credibility by arguing that it “emerges from a political bargain articulated through both political institutions and the party system” (p. 9). This bargain between national and subnational politicians becomes possible only because of the divergence between the interests of individual subnational politicians (for example, governors) and the institutional interests of the governments they control. Ambitious governors can be persuaded to sign off on changes that limit the fiscal authority of their own states or provinces so long as national politicians can protect the careers of the individual governors in question.<sup>27</sup> After developing this argument for the Mexican case, Diaz-Cayeros then asks why fiscal centralization also occurred in the Argentine and Venezuelan federations but not in Brazil.

Like many other countries, all four Latin American federations had strong incentives to centralize tax collection in the twentieth century, beginning with the negative impact of the Great Depression on tariff revenues, which led federal governments to encroach on subnational tax bases, and accelerating with changes in tax technologies that increased the potential revenue that could be generated through centralized collection. Similarly centralizing pressures, however, resulted in very different outcomes. In Mexico predatory behavior by the states in the aftermath of the revolution encouraged the federal government to propose the centralization of fiscal authority in 1925 and again in 1933. Peripheral states supported the center, but richer and more militarily

<sup>27</sup> For a pioneering application of ambition theory to federalism, see David Samuels, *Ambition, Federalism, and Legislative Politics in Brazil* (New York: Cambridge University Press, 2003).

powerful states opposed centralization in defense of a more decentralized federalism—a finding that resonates with Riker’s understanding of federalism as an outcome that results when the political core cannot defeat subnational units militarily. According to Diaz-Cayeros, centralization occurred in Mexico only after the emergence of the Party of the National Revolution, which was created along territorial lines in 1929 and transformed along a corporatist dimension in 1938. The institutionalization of this party, combined with such institutional innovations as staggered national and subnational elections and the extension of gubernatorial terms to six years, enabled national party leaders to pry subnational tax bases away from the states. Thus, Diaz-Cayeros reverses the causal logic of the argument advanced by Pradeep Chhibber and Ken Kollman, who have argued that fiscal centralization drives political party centralization.<sup>28</sup>

Whereas fiscal centralization depended on the prior construction of a centralized party in Mexico, Diaz-Cayeros argues that it was produced by other means in Venezuela and Argentina. In Venezuela, the military weakness of the states relative to the center facilitated fiscal centralization before the discovery of oil, which then vastly strengthened the hand of the federal government. In Argentina, Diaz-Cayeros argues, the delegation of enforcement responsibilities to a third party—the Central Bank—encouraged governors to also delegate to the federal executive the collection of their constitutionally given tax bases (p. 190). Fiscal centralization failed to occur only in Brazil, the federation with the weakest parties, the most inchoate party system, and the most militarily powerful states. Brazilian states retained substantial taxing authority even under authoritarian rule by Vargas in the 1930s and by the generals in the 1960s, 1970s, and 1980s.

Diaz-Cayeros’s study of fiscal centralization is an especially welcome corrective to the rapidly expanding literature on decentralization, which has perhaps overstated the recent decentralizing trend by focusing over-

<sup>28</sup> Pradeep Chhibber and Ken Kollman, *The Formation of National Party Systems: Federalism and Party Competition in Canada, Great Britain, India and the U.S.* (New York: Princeton University Press, 2004). Like Diaz-Cayeros, I have argued elsewhere in a study of decentralization and regime change that internal features of political parties drive the degree of fiscal decentralization. Specifically, decentralized political parties explain why successive democratic transitions in Argentina and Brazil have consistently produced episodes of fiscal decentralization, in contrast to Chile and Uruguay, where centralized parties account for the failure of democratization to produce equivalent acts of fiscal decentralization. See Kent Eaton, *Politics beyond the Capital: The Design of Subnational Institutions in South America* (Stanford, Calif.: Stanford University Press, 2004). For related arguments that are centered on political parties and decentralization, see Kathleen O’Neill, *Decentralizing the State: Elections, Parties and Local Power in the Andes* (New York: Cambridge University Press, 2005); and Eliza Willis, Christopher Garman, and Stephan Haggard, “Decentralization in Latin America,” *Latin American Research Review* 34, no. 1 (1999).

whelmingly on changes in revenue-sharing systems that have expanded the size of transfers to subnational governments. The earlier decisions to centralize tax *bases* that Diaz-Cayeros explains have proved to be remarkably sticky, and for the most part they have not been reversed by the recent wave of decentralization. These decisions to delegate fiscal authority sever the critical connection between taxing and spending, which can drastically limit the transparency, accountability, and capacity of subnational units in ways that are often hard to reverse. Among other things, this is important because, as Ziblatt shows, successful federalism requires subnational units with high levels of capacity.

Diaz-Cayeros's book is significant for a number of other reasons as well, including the finding that democratization in Argentina and Venezuela improved the center's compliance with its revenue commitments and the argument that particularly high levels of regime instability in Argentina are in part responsible for the incredible complexity of that country's version of fiscal federalism. But one of the greatest merits of Diaz-Cayeros's work is the analytical leverage that his bargaining model provides on redistribution within federal systems. Whereas in the U.S. opponents of redistribution have feared that centralization would generate redistributive outcomes, in Latin America the decision to centralize fiscal authority produced initially regressive outcomes, rather than redistributive outcomes. At the outset, richer states, which had greater bargaining capacity than peripheral states, were able to insist on favorable revenue-sharing criteria as a condition for accepting fiscal centralization. Only over time did transfer systems become more redistributive, often, ironically enough, during military regimes that imposed a hiatus from the bargaining context.

Despite the compelling internal logic and rigor of Diaz-Cayeros's account, some of the evidence casts doubt on the power of his causal argument. First, while the ability of one theoretical framework to shed light on disparate cases is impressive, the theory appears to work better for Mexico than it does for Argentina or Venezuela. In Mexico the institutionalization of the governing party together with its clearly hegemonic position within the political system sufficed to convince governors that they could count on the offer of protection extended by national party leaders. The bargain seems much less desirable in Argentina, however, where in the absence of a centralized party governors were presumably willing to delegate fiscal authority in 1934 because of the protection they felt the newly created and formally independent Central Bank could offer. Given high levels of institutional volatility and the traumatic rupture in constitutional rule that had occurred a mere four years

before in 1930, it is hard to imagine that faith in third-party enforcement by the new bank could have played a significant role in convincing the governors to delegate. A series of noninstitutional factors may have been even more significant, including the fact that delegation enabled subnational governments to shift the political and administrative costs of collecting taxes on to the national government, a factor that merits greater attention in Diaz-Cayeros's theoretical model. Any credible resolution of a commitment problem appears even less relevant to the story of how fiscal authority was centralized in Venezuela. Thus, one of the lessons that emerges from this book is that fiscal centralization is achieved in a number of different ways, a valuable finding that nevertheless raises questions about the importance of institutional solutions to commitment problems.

Second, aspects of the Mexican case also suggest that it would be a mistake to overstate the extent to which the centralization of Mexico's governing party explains the centralization of fiscal authority. On the one hand, developments within the governing party in the late 1930s and 1940s are critical for understanding why substantially similar centralizing attempts failed in 1925 and 1933 but succeeded in 1947 with the elimination of subnational taxes on trade and industry and the creation of a national sales tax (ISIM) (p. 95). However, by the end of the 1950s only half of the states had signed on to the ISIM, and it was only in 1974 that all states agreed to incorporate into it (p. 131). There was thus a substantial time lag between the institutionalization of the governing party in the 1930s and 1940s and the final achievement of a centralized sales tax in the 1970s, which—as Diaz-Cayeros notes—has much to do with the externally generated oil boom and the availability of additional revenue transfers that the central government could and did use to purchase compliance by governors (p. 132). In other words, the external dimension may deserve greater attention not only in the theoretical model that Ziblatt constructs to explain the origins of federalism but also in Diaz-Cayeros's theoretical account of its evolution.

### CONSEQUENCES

Moving beyond the initial question of what causes political actors to adopt federalism and to amend federal institutions over time is the logically subsequent question of what difference if any these institutions make. In contrast to the exceptionally thin literature on the causes of federalism, recent years have seen the rapid expansion of scholarship by political scientists on the consequences of federalism. Just as it is

important to question not only the causes of federalism but also the causes of variation within federal systems, so it is important to examine both the consequences of federal versus unitary designs and the consequences of variation within federal systems. While most scholars writing about consequences agree that “federalism matters,” they often differ sharply as to whether its impact is positive or negative for a series of outcomes, including democracy, stability, and economic development. For example, whereas Alfred Stepan observes that all long-standing multinational and multilingual democracies are federal, and Nancy Bermeo notes that “no violent separatist movement has ever succeeded in a federal democracy,”<sup>29</sup> Valerie Bunce writes that “if new democracies in multinational states inherit a federal structure, they will be especially vulnerable to secessionist pressures.”<sup>30</sup> We are far from any consensus on the possible “peace preserving” effects of federalism.

The purported impact of federalism on economic outcomes has generated no less disagreement. Writing over a decade ago, Barry Weingast and his collaborators Gabriella Montinola and Yingyi Qian focused on federalism as the factor that explains how China, in the absence of the rule of law, could nevertheless produce sustained market-based economic growth.<sup>31</sup> According to these authors, the delegation of authority to the provinces encouraged provincial officials to compete with each other to attract and retain investors, a dynamic that limited acts of predation and coercion by the government and that encouraged pro-market policies.<sup>32</sup> Others have disputed the beneficial impact of federalism. For example, with reference to India, Susan Rose-Ackerman and Jonathan Rodden questioned “whether market-preserving federalism can in fact solve the ‘fundamental political dilemma of an economic system,’” and argued that the Chinese experience should not be used to promote calls for “radical decentralization and deregulation in the name of efficiency.”<sup>33</sup>

<sup>29</sup> Alfred Stepan, *Arguing Comparative Politics* (Oxford: Oxford University Press, 2001), 315; and Bermeo (fn. 7), 108.

<sup>30</sup> See Valerie Bunce, “Federalism, Nationalism and Secession: The Communist and Postcommunist Experience,” in Amoretti and Bermeo (fn. 12), 436. The Amoretti and Bermeo volume is one of the most comprehensive studies to date on federalism and stability, and it concludes that consensual forms of federalism are better than majoritarian forms at accommodating territorial cleavages. See Amoretti and Bermeo (fn. 12).

<sup>31</sup> Montinola, Qian, and Weingast (fn. 4).

<sup>32</sup> For an alternative view, that it was local protection in China that facilitated the transition to markets, see Andrew Wedeman, *From Mao to Market: Rent Seeking, Local Protectionism and Marketization in China* (New York: Cambridge University Press, 2003). For the argument that local governments in China have been unable to imitate market-friendly institutional arrangements, see Eric Thun, “Keeping Up with the Jones’: Decentralization, Policy Imitation and Industrial Development in China,” *World Development* 38, no. 2 (2004).

<sup>33</sup> Susan Rose-Ackerman and Jonathan Rodden, “Does Federalism Preserve Markets?” *Virginia Law Review* 83, no. 7 (1997), 1524.

Rather than reconciling the important debate over “market-preserving federalism,” the research conducted by Kelemen and Wibbels offers fresh insights for this debate. Wibbels, for example, shifts the analytical focus from competition between subnational units to the political competition within subnational units, and Kelemen shows that federalism in fact can be quite coercive because of the incentives it often creates for highly detailed lawmaking. Beyond the debate over market-preserving federalism, these two books expand our understanding of how federal institutions impact a range of economic outcomes.

Kelemen argues that we can understand the contours of the EU’s increasingly important regulatory decisions only if we take seriously the federal nature of its decision-making institutions. Toward this goal, he borrows extensively from the new institutional economics and offers a new two-part theory of regulatory federalism. According to the first part of his theory, which Kelemen refers to as the “politics of competence,” federations preserve policy-making authority for the national government and delegate the implementation of policy to subnational governments. According to the second part of his theory, referred to as the “politics of discretion,” the degree of fragmentation at the national level determines how much latitude subnational governments are given in implementing policy. In parliamentary systems the fusion of power in the assembly works to assure legislative majorities that they can control subnational governments and that they can simply write new legislation if the behavior of these governments does not conform to their interests. In presidential systems that divide policy-making authority between separately elected executives and legislators, the inability of either branch to control the other encourages the passage of detailed legislation that limits subnational discretion. Thus, all federal systems differ from all unitary systems in the distribution of competence, but federal systems differ from each other in the amount of discretion enjoyed by subnational governments relative to the center.

Kelemen tests his theory by comparing the form and content of environmental regulation in five political units that differ in the degree to which policy-making authority is fragmented at the national level. In the U.S. the separation of powers limits legislators’ influence over the Environmental Protection Agency, the executive body that is charged with enforcing environmental legislation, and encourages Congress in turn to pass detailed bills. Knowing that their rulings cannot easily be rejected by legislators, courts consequently play a more active role in separation of power systems. Kelemen argues that, because of the separate election of the European parliament and the European Commission,

regulation in the EU more closely resembles the U.S. pattern than it does the pattern in any of the EU's member states. Further, because EU institutions mirror the fragmentation of the U.S., Kelemen sees an increasingly litigious future for the EU. In contrast, the fusion of power in the assemblies of parliamentary Australia and Canada, even though they are also federal, leads to a very different type of regulation because legislative majorities know they can easily rewrite legislation if they disapprove of subnational regulatory decisions. Kelemen's fifth case, Germany, occupies the middle ground. Its parliamentarism discourages detailed lawmaking, but the post-Nazi Basic Law safeguards the independence of the courts, whose behavior in the area of regulation more closely resembles courts in the U.S. than those in Australia or Canada.

Thanks to his interest in the politics of both competence and discretion, Kelemen offers a theory of regulatory federalism that manages to integrate the study of presidentialism and parliamentarism into the study of federalism and decentralization.<sup>34</sup> Kelemen shows that the horizontal division of power between actors at the national level is not unrelated to the vertical division of power between national and subnational governments. Instead, horizontal decentralization works to prevent vertical decentralization and horizontal centralization makes vertical decentralization more likely. In addition to showing how these two forms of decentralization work at cross-purposes, Kelemen's book is impressive because it goes beyond executive-legislative dynamics to look systematically at the role played by the judiciary. As noted earlier, some scholars consider judicial review to be a defining feature of federalism, yet we have few comparative studies of how the courts uphold the "federal bargain." Particularly in developing democracies, legislative changes that enhance the resources and authority of subnational governments are only as good as the ability of an independent judiciary to enforce them. Under pressure from both external and domestic actors, national governments in these countries can endorse decentralization via legislative change but then use their political control of the courts to effectively deny redress to subnational governments. Kelemen's book can also be read, contra James Madison and Barry Weingast, as a critique of federalism and the coercive dynamics that it can set in motion. Though advocates of federalism have argued that the best way to check the power of the national government is to give some of it to

<sup>34</sup> For a study of subnational executive-legislative relations within federal systems, see Maxwell Cameron and Tullia Falletti, "Federalism and the Subnational Separation of Powers," *Publius* 35, no. 2 (Spring 2005).

subnational governments, Kelemen finds that federalism can in fact produce highly coercive outcomes when power at the national level is divided among the separate branches. In the context of separate powers, according to Kelemen, “the federal government takes a more coercive approach to controlling states” (p. 165).

On the one hand, the ability of such a simple theory to explain such broad patterns of regulation is a clear sign of its power. On the other hand, one might prefer a thicker, more complex theory to account for variation across space and time in the politics of “competence” and “discretion.” With respect to the politics of competence, Kelemen argues that all federal systems assign the authority to implement regulatory policy to subnational units and the authority to make regulatory policy to the national government. Whereas Kelemen thus argues that all federal systems tend to arrive at the same stable division of regulatory competences, in fact it appears that national governments in the developing world assume far more dominant roles in policy implementation than is the case in the developed countries that he studies—for reasons that may have more to do with the strength of institutions than with their design.

With respect to the politics of discretion, Kelemen’s singular focus on the degree of national-level fragmentation appears too blunt a variable to explain the significant variation across time that he describes within each of his country cases. For example, in the chapter on the U.S., Kelemen describes growing moves to give states more regulatory discretion but does not explain how this transformation might result from changes in the fragmentation of power at the national level, which is his only causal factor. In Australia and Canada, Kelemen’s theoretical model can explain how the (parliamentarian) federal government has been able to respond to increasingly activist courts by opting to rewrite environmental legislation, but it cannot explain why these courts have become more activist in the first place. Greater attention to interests in his theory would be particularly useful given his focus on the environmental arena, where the transformation of interest-group dynamics in recent decades is especially striking. Kelemen’s book succeeds as an exercise in comparative statics, explaining differences in national styles of regulation, but some of his most interesting empirical material remains unaccounted for in the theory of regulatory federalism.

Whereas Kelemen evaluates the imprint of federalism on regulation, Wibbels examines the impact of federal institutions on the wide-ranging market reforms that have dominated policy agendas since the 1980s and that have produced a sizable political science literature. Just when it appeared that little more could be said about the politics of market

reform and that all major independent variables had been discovered, conceptualized, and examined, Wibbels offered a major addition to the literature with his insightful study of federalism and subnational politics. Like many before him, Wibbels conceptualizes market reform as a collective action problem that requires cooperation among politicians who must refrain from the clientelistic practices and spending behaviors that threaten fiscal stability. Wibbels innovates, however, by widening the set of relevant politicians to include subnational politicians in federal systems. According to Wibbels, federalism empowers subnational politicians, who often have less motivation to support market reforms because national politicians are the ones typically given the credit for any subsequent macroeconomic successes (p. 28). Thus, although Wibbels partially rejects the institutionalist label because he considers federal institutions to be “endogenous to politics,” his work shows that the institutionalist literature on market reform should be expanded beyond presidentialism, electoral incentives, and bureaucratic autonomy to include federalism. Federalism matters, but so does the substantial institutional variation that Wibbels sees within federal systems. In many countries, these institutions encourage regional leaders to oppose market reforms, while “in other cases national governments resistant to market-friendly initiatives have hamstrung entrepreneurial regional governments” (p. 2).

Rather than identify a single dependent variable, Wibbels is interested in explaining at least three related but distinct variables: (1) the policy preferences of subnational politicians, (2) the degree to which these preferences overlap with national politicians (making intergovernmental coordination possible), and (3) the macroeconomic performance of federal countries. To explain these outcomes, Wibbels focuses on the four explanatory variables that he believes account for cross-national variation in the impact of federalism on market reform. First, Wibbels argues that political competition in subnational governments encourages subnational leaders to opt for the market over clientelism, a choice that substantially smooths market reforms when these are advocated by national governments. Second, it matters how regions are represented in national legislatures; where uncompetitive regions are overrepresented, this acts as a brake on market reform. Third, Wibbels focuses on intergovernmental partisan relations, hypothesizing that if subnational politicians believe that their interests are furthered when national copartisans implement market reforms, these reforms are more likely. The rules of fiscal federalism constitute the fourth variable; fiscal systems that rely heavily on revenue transfers to subnational govern-

ments produce larger deficits and generate greater resistance to market reforms. Considering the range of his independent and dependent variables, Wibbels's theoretical argument is significantly more complex than that of the three other books under review, which, depending on one's taste for parsimony, makes it either more or less appealing. Due to unavailable data, Wibbels uses a number of methods to test his theory but finds some support for each of his four independent variables, which are reviewed in the following paragraphs.

Where Weingast argues that market approaches are sustained by competition between subnational governments, Wibbels argues that they are sustained by competition within these governments, a situation that heightens the "fiscal shadow of the future" (p. 168) and encourages in parties and out parties to "cooperate in a constrained use of public resources" (p. 34). According to Wibbels, "waste and embezzlement are more likely" in uncompetitive systems than in competitive systems. As a result, believing that their tax payments will not be wasted, voters in more competitive systems are more likely to allocate revenue to politicians, and subnational governments are therefore more likely to be able to "cushion budgets during market reforms" (p. 35). By arguing that political competition facilitates market reform, Wibbels takes a clear position in the old debate over the regularity with which democracy produces markets, one that would be disputed by much of the literature on democracy and clientelism. As Jonathan Fox and others have argued, the shift to more competitive political environments can reinforce clientelism as electoral challenges encourage incumbents to depend more and not less on the traditional mechanisms of clientelism.<sup>35</sup> Data are not available for a cross-national test of this hypothesis about subnational political competition, but Wibbels's brief case studies of three Argentine provinces do support his argument: the lack of political competition impeded market reforms in Rio Negro, whereas a much more competitive environment in Mendoza generated one of the country's most successful provincial reform efforts. These findings suggest the need for further research into the effects of subnational political competition, particularly when one considers the different dynamics identified by Wibbels and Diaz-Cayeros. Whereas Wibbels argues that subnational competition makes it easier for the center to get what it wants (for example, market reform), Diaz-Cayeros shows that

<sup>35</sup> Jonathan Fox, "The Difficult Transition from Clientelism to Citizenship: Lessons from Mexico," *World Politics* 46 (January 1994). Rebecca Weitz-Shapiro argues that the impact of political competition on clientelism is mediated by poverty; where competition and poverty are high, the incentives to use clientelism are significant. See Weitz-Shapiro, "Choosing Clientelism: Political Competition, Poverty and Social Welfare Policy in Argentina" (Ph.D. diss., Columbia University, 2008).

subnational competition makes it harder for the center to get what it wants (for example, fiscal centralization) by making it harder to protect governors from electoral threats.

Wibbels also finds support for his second explanatory variable, the representation of regions at the center. "Where regions have formal representation in the national policy-making process" (which Wibbels considers to be part of the definition of federalism), "the interests of the national government are in part a function of the coalition of regional forces" (p. 106). Because Wibbels hypothesizes that regions with significant deficits (in excess of 10 percent of revenues) will use their political capital to block federal fiscal adjustment, the size of regional coalitions for and against market reforms therefore becomes critical. Wibbels finds that "high deficit coalitions" in legislatures do indeed worsen three measures of macroeconomic performance: budget balance, inflation, and indebtedness (p. 108). Wibbels's results underscore the importance of rules that overrepresent uncompetitive subnational regions within national legislatures, rules that were often critical in the construction of what Stepan has called "holding-together" forms of federations and that may become even more critical in all types of federations as globalization appears to exacerbate regional disparities in the level of competitiveness. Wibbels's research also suggests the need for finer-grained studies of regionally organized economic interests that may confound the labeling of an entire subnational region as "competitive" or "uncompetitive."

Third, while Wibbels's focus on "intergovernmental partisan harmony" would appear to simply confirm—as Diaz-Cayeros's book does—the emphasis on party centralization in the federalism literature, in fact he innovates by underscoring the importance of partisan harmony via coattails and not compulsion. National leaders of disciplined parties can certainly use carrots and sticks to manufacture the policy support of their subnational copartisans, but Wibbels argues that coattails offer a more secure route to intergovernmental cooperation over market reform. Specifically, "provincial officials can have incentives to cooperate simply because the electoral fates of their copartisans at the federal level influence their own electoral chances" (p. 38). According to Wibbels, the persistent economic troubles created by Argentine provinces in the 1990s illustrate the inferiority of compulsion and the superiority of "coattails"; in the absence of coattails, President Carlos Menem was forced to use compulsion. In his first term Menem cajoled provincial officials into supporting market reform, which he achieved by offering some rather substantial carrots, including a series of concessions on

provincial revenue sharing that ultimately sabotaged fiscal stability.<sup>36</sup> Wibbels makes the case that the coattails effect was unavailable to Menem by showing that his 1989 presidential victory failed to generate statistically significant levels of support for Peronist candidates in (non-concurrent) gubernatorial elections held during his first term (p. 135). This is an imperfect test, however, given that Menem so completely reversed his position on market reform in the wake of his 1989 election. Furthermore, in 1991, 1993, and 1995, Menem's success in stabilizing the economy undeniably improved the electoral fates of Peronist *legislative* candidates, which did much to facilitate market reform.<sup>37</sup> Looking at both governors and legislators suggests that both compulsion and coattails were at play in Argentina's market reforms.

Finally, Wibbels evaluates the importance of his fourth independent variable: the intergovernmental fiscal system. According to Wibbels, both the form and the content of these rules matter. With respect to the former, "convoluted intergovernmental grant systems that transfer significant resources to subnational governments complicate economic policy coordination" (p. 41). With respect to the content of fiscal rules, certain rules are likely to generate pro-market policy preferences at the subnational level. For example, when fiscal rules assign both significant tax bases and expenditure responsibilities to subnational governments, these countries "are less crisis prone as own-source revenue generation increases" (p. 116). In a deeper sense, however, Wibbels parts company with those who see fiscal institutions as explanatory variables by reminding us that these institutions are not exogenous to politics and are often in considerable flux. This leads to his argument that imposing a hard budget constraint is a less effective way to promote market reform than increasing either political competition or coattail effects. While this insistence on the endogeneity of fiscal institutions is a welcome departure from much of the institutionalist literature, it also makes it difficult to assess the relative strength of this fourth explanatory variable because institutions are both cause and effect in Wibbels's study.

## CONCLUSION

As a measure of their significance and quality, these four books will strongly influence the course of the expanding literature on comparative

<sup>36</sup> Kent Eaton, "Menem and the Governors: Intergovernmental Relations in the 1990s," in Steven Levitsky and M. Victoria Murillo, eds., *Argentine Democracy: The Politics of Institutional Weakness* (University Park: Penn State University Press, 2005).

<sup>37</sup> Kent Eaton, *Politicians and Economic Reform in New Democracies* (University Park: Penn State University Press, 2002), 225–30.

federalism. With their many contributions in mind, this concluding section offers a number of suggestions about the direction that this literature should take. In addition to identifying research priorities vis-à-vis both the causes and the consequences of federalism, I argue that the study of federalism would benefit from a closer reading of the literature on historical institutionalism, greater attention to questions of institutional strength and not merely institutional design, and the more systematic consideration of noninstitutional factors, including interest groups, identity formation, and international pressures.

First, with respect to the causes of federalism, scholars should take a cue from Ziblatt and broaden the study of the origins of federalism beyond Riker's narrow focus on military capacity. This should happen not only by studying additional cases of "coming together" federalism such as nineteenth-century Germany and Italy but also by privileging the study of the "holding together" route that seems more likely to generate federal outcomes in the contemporary period. With respect to coming-together forms, Kelemen's research on the EU suggests that the principal-agent framework can be useful in understanding why federal polities emerge. According to Kelemen, the EU can be understood as a federal political entity that was created by principals (sovereign member states) who have gradually lost control over their agents (the governing institutions of the EU, including the European Commission, the Council of Ministers, the Parliament, and the Court of Justice). As Paul Pierson and others have argued, when Community institutions used their delegated autonomy to pursue their own ends, the unanimity rule made it difficult for member states to control these actions.<sup>38</sup> Such an account of the gradual, some would say accidental, creation of a federal entity suggests the need to broaden the analytical focus significantly beyond questions of capacity (military or infrastructural).

Whereas Riker, Ziblatt, and Kelemen all describe "coming together" forms of federalism, scholars should also follow Stepan's lead and study the "holding together" forms of federalism, whose origins look quite different. The study of these forms is particularly important because attempts to accommodate regional diversity in unitary countries are the most common way that new federations will emerge in the future. Whereas *external* security threats loom large in the decision to "come together" as a federation, *internal* security issues tend to dominate the debate in unitary countries about whether federalism will help them

<sup>38</sup> Paul Pierson, "The Path to European Integration: A Historical Institutionalist Analysis," *Comparative Political Studies* 29, no. 2 (1996).

“hold together.” Despite differences in the source of the dominant security threat for each form of federalism, the military capacity of subnational units may still operate as a key variable, and thus Riker here remains relevant. Just as subnational units with high levels of military capacity encourage “coming together” forms of federalism to meet external threats, so they would also appear to make federalism a desirable compromise for central government officials in unitary countries that are seeking to avoid secession. At the same time, in many developing countries beset by internal conflict, the key issue is not that subnational units have high levels of military capacity but rather that no governmental actor—local or national—enjoys a viable monopoly on the use of force due to deep-seated problems of state formation.

More generally, the study of the causes of federalism would benefit from a closer reading of the literature on decentralization. While it would be incorrect to say that these two literatures have developed in isolation from each other, much could be gained by integrating them more closely. Relative to the scholarship on federalism, the decentralization literature has been much more prolific in identifying a broad range of possible causes, many of which are germane to the question of how federalism originates and evolves. Consider the following three important works on decentralization. If Richard Doner and Eric Hershberg are correct and the global decentralization trend is due to pressure from firms that need more responsive local governments, should not these firms also prefer federalism as an institutional form that gives local governments more latitude for independent action?<sup>39</sup> Likewise, Kathleen O’Neill’s argument that parties decentralize when their electoral fortunes look more promising at the subnational level could usefully be applied to the adoption and evolution of federalism. Whether a defining feature of federalism is the election of subnational chief executives (Díaz-Cayeros) or subnational legislators (Wibbels), the calculations of central government officials that O’Neill describes should lead them just as readily to federalizing as to decentralizing options.<sup>40</sup> Finally, Tulia Falleti’s work on the sequencing of administrative, fiscal, and political decentralization encourages us to investigate whether certain sequences (that is, political decentralization preceding administrative or fiscal decentralization) increase the prospects for federalization.<sup>41</sup>

<sup>39</sup> Richard Doner and Eric Hershberg, “Flexible Production and Political Decentralization in the Developing World: Elective Affinities in the Pursuit of Competitiveness?” *Studies in Comparative International Development* 34, no. 1 (1999).

<sup>40</sup> O’Neill (fn. 28).

<sup>41</sup> Tulia Falleti, “A Sequential Theory of Decentralization: Latin American Cases in Comparative Perspective,” *American Political Science Review* 99, no. 3 (2005)

Turning to the consequences of federalism, much of the work in the future will likely focus on resolving the significant disagreements that have arisen over the purportedly market- and peace-preserving qualities of federalism. By supporting, in effect, different camps in the debate over federalism and the market, Wibbels and Kelemen speak to the unresolved nature of this debate: Wibbels argues that competition within (and not just between) subnational units favors the market, while Kelemen argues that federalism combined with presidentialism can lead to quite coercive practices. Even as scholars continue to produce additional work on these parallel research tracks (that is, does federalism preserve the market? does it preserve peace?), our understanding of the consequences of federalism would also benefit if these alleged effects were investigated jointly rather than separately. For the optimistic/pessimistic view of federalism, do the same institutional factors that enhance/hinder market-based development also enhance/hinder political stability? Or do these factors work at cross-purposes? For example, it would appear that revenue transfers may be “market distorting” but “peace preserving” if they simultaneously encourage subnational governments to engage in irresponsible fiscal behaviors while precluding separatist behaviors. Future research should specify the terms of this and other possible trade-offs between federalism’s market-preserving and peace-preserving effects.

While its impact on “peace and the market” is likely to receive much attention, our attempts to better understand the consequences of federalism would also be furthered by the pursuit of two additional research designs. First, we need more studies that explicitly compare federal with unitary cases, and not just federal cases with each other.<sup>42</sup> As I argued above, subnational governments in unitary countries are more significant than is suggested by some of the new federalism literature, and it would be a serious mistake to dismiss the subnational realm in unitary countries as irrelevant. While Wibbels’s quantitative analysis demonstrates regular differences in the macroeconomic performance of federal and unitary systems, in-depth qualitative comparisons may well show that governing dynamics within federal and unitary cases are less distinct than we think, particularly now that so many unitary countries have moved to strengthen subnational governments via programs of decentralization.

<sup>42</sup> For a comparison of how racial and regional cleavages shape taxation in unitary and federal cases, see Evan Lieberman, *Race and Regionalism in the Politics of Taxation in Brazil and South Africa* (New York: Cambridge University Press, 2003).

A second useful research design would problematize the relationship between the two subnational levels of government that most federations employ: local and intermediate. Each of the four books under review privileges the intermediate level of government (for example, states, provinces, *länder*) and the interactions between these governments and the center. And yet in many cases it is difficult to fully understand dynamics between federal and intermediate-level governments without integrating municipal governments into the analysis. Across Latin America, for example, federal government officials have sought to strengthen municipal governments in their (often successful) attempts to undermine the intermediate-level governments that they typically see as more threatening.<sup>43</sup>

Whether studying the origins and evolution or the consequences of federal institutions, students of federalism should look to the historical strains of the new institutionalism and not just to the rationalist strains. Particularly in the books that borrow heavily from the rationalist tradition, insights from historical institutionalism might have provided more convincing explanations. When we seek, for example, to understand why Argentine federalism is characterized by such high levels of fiscal centralization, path dependence and the unintended consequence of institutional innovation appear to be more powerful concepts than is Diaz-Cayeros's rationalist view of institutions as solutions to commitment problems. Once governors in rich provinces realized that the Central Bank was insufficiently independent to guarantee revenue transfers, the capacity of provinces to collect taxes had atrophied in ways that foreclosed the reversal of fiscal centralization. Likewise, considering Kelemen's work on regulation, path dependence might explain why countries produce rather stable regulatory styles despite changes through time in his core explanatory variable, which is the degree to which power is fragmented between the executive and legislative branches. If fiscal institutions are, as Wibbels argues, both cause and effect of intergovernmental bargaining, it is hard to imagine how we could disentangle this relationship analytically without documenting its concrete historical evolution.

Taking historical institutionalism more seriously would also likely shift our attention from questions of institutional design to questions

<sup>43</sup>David Samuels, "Reinventing Local Government?: Municipalities and Inter-governmental Relations in Democratic Brazil," in Peter Kingstone and Timothy Power, eds., *Democratic Brazil* (Pittsburgh, Pa.: University of Pittsburgh Press, 2000); Tyler Dickovick, "Municipalization as Central Government Strategy: Central-Regional-Local Politics in Peru, Brazil and South Africa," *Publius* (Winter 2007); and Eaton (fn. 28), chaps. 3, 6.

of institutional strength. Simply put, federalism matters only when institutions matter. If institutions are insufficiently strong to serve as constraints on political behavior, then whether a country's institutional framework is federal or unitary scarcely matters. This raises the possibility that federalism might be an important object of study in some countries (that is, the more formally institutionalized settings of stable democracies) and quite irrelevant in others (that is, newer or faltering democracies with high levels of institutional instability). If countries in developing regions generally have weaker institutions than their counterparts in developed regions, then this should lead us to expect significant cross-regional variation in the degree of compliance with the formal division of regulatory competence that Kelemen ascribes to *all* federations. In other words, formal institutional rules might deny implementation powers to federal governments in developing federations, but when there is little respect for such rules these governments are typically able to prevent subnational governments from playing meaningful roles in policy implementation. Furthermore, federalism appears to have different economic effects in developing and developed countries. According to one of the most important findings in Wibbels's book, federalism in OECD countries produces "conservative regional economic policy" (p. 47), whereas in the developing world it produces higher inflation and deficits, greater volatility, and more frequent economic crises (p. 74). Unless developed and developing countries routinely pick different types of federal institutions, the fact that federalism generates different outcomes in different settings must be understood as a challenge to the importance of institutional design.

Rethinking the narrower focus on institutional design to include sometimes more profound questions of institutional strength is in order, but it would also be helpful to relax the focus on institutional factors altogether. Federalism is an institutional phenomenon, but it should be examined in ways that are sensitive to the importance of noninstitutional variables. In this sense, students of federalism have a chance to avoid the charge of being insufficiently interested in noninstitutional factors that has been leveled against much of the new institutionalism literature. As in the study of other political phenomena, the tendency of political scientists to privilege either institutions or interests in building theories serves as an impediment to more complete explanations of federalism. Interests are either noticeably absent or superficially treated in much of the new literature on federalism. In Diaz-Cayeros's book, interest groups appear neither in the theory nor in the empirics, whereas in Kelemen's book they appear in the country cases that he compiles

but not in his parsimonious theoretical account. Wibbels argues that only at the margins do interest groups affect the policy preferences of subnational officials. The exception here is Ziblatt, whose dismissal of a society-centered view of the origins of federalism is based on the rigorous comparison of societal and state-centered explanations.

While students of federalism should emulate Ziblatt's attempt to bridge institutions and interests, it would be unfortunate if they were to conclude from his research that identity formation is not a promising avenue for the study of federalism. In Germany and Italy, Ziblatt finds that "deeply embedded" regional identities cannot explain why the former became federal while the latter became unitary because individuals in both cases felt strong attachments to the "constituent units" of each country. More generally, however, we know from the vast literature on identity formation and from the critique of primordialism that (regional) identities can be manipulated from above and that they are subject to construction over time in ways that might affect federalism. I have argued about Bolivia, for example, that the economic and political leaders of an autonomy movement in that country's most prosperous lowland region (Santa Cruz) have consciously sought to promote certain regional identities. More specifically, in the attempt to overcome the view that autonomy will benefit only the elites who have led the charge for autonomy, these elites have championed the use of a panethnic territorial identifier (for example, lowlander or "*camba*") as a label for all those who inhabit the region, including its indigenous, white, and mestizo residents. Thus regional elites have manipulated regional identities in the pursuit of institutional changes that have pushed Bolivia substantially in the direction of federalism (as reflected in the 2005 introduction of regional elections).<sup>44</sup> This relatively unexplored intersection between federal institutions and identity formation deserves substantial attention as the literature on comparative federalism continues to expand.

Finally, these books show that a comparative understanding of federalism requires systematic attention to variables that are external to domestic politics. As argued earlier, international factors such as fear of invasion and OPEC-generated oil rents appear to be more important in the empirical details of the cases that Ziblatt and Diaz-Cayeros examine than in their theoretical models of the origins and evolution of federalism. External factors are likewise mostly absent from Wibbels's and Kelemen's causal arguments about the consequences of federalism,

<sup>44</sup> Kent Eaton, "Backlash in Bolivia: Regional Autonomy as a Reaction against Indigenous Mobilization," *Politics and Society* 35 (March 2007).

although the theoretical model posited by each offers some space for the incorporation of external factors. For example, Wibbels's focus on the under/overrepresentation of competitive/noncompetitive regions makes it possible to imagine how the differential integration of these regions into global markets might impact federalism. Perhaps because of his focus on the EU, a supranational institution, Kelemen's study serves as a particularly powerful illustration of the importance of transcending a strictly domestic perspective on federalism. For example, Kelemen's work on Germany shows that it is impossible to understand the relationship between its federal and state governments without appreciating how EU requirements have decreased the discretion of the latter.<sup>45</sup> Outside the EU, Kelemen's research on Australia and Canada suggests that alliances between transnational firms and subnational governments, which are often substantially more liberal than their federal counterparts, are as important for understanding the politics of regulation as the fragmentation or concentration of power at the federal level. Whether subnational governments court transnational capital or confront it, as increasingly seems to be the case in Latin America and other developing regions, external and transnational dynamics have always been important to federalism and will only become more so with time. Paying greater attention to these international dynamics—in addition to taking interests and identities more seriously—will ensure that federalism in the years to come receives the attention it deserves among a wider audience of political scientists.

<sup>45</sup> EU budgetary requirements have also reduced the ability of national governments to regulate center-periphery relations in unitary cases like Italy. See Amoretti (fn. 18), 17.