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MADISON IN BAGHDAD?: Decentralization and Federalism in Comparative Politics

Erik Wibbels
Department of Political Science,University of Washington, Seattle, Washington 98195-3530; email: ewibbels@u.washington.edu

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■ **Abstract** Research on comparative decentralization and federalism is a booming industry. Recent research integrates insights from political science, economics, and economic history in emphasizing the importance of incentives for the operation of decentralized government. Such work has focused particular attention on fiscal, representative, and party institutions. In reviewing the past decade's research, I make two arguments. First, the comparative research on decentralization and federalism provides a model for how comparative politics can address some of the most profound questions in social thought by focusing on a theoretically and empirically tractable aspect of governance. Second, although the research addresses many of the key questions in comparative politics, it also struggles with some of the same problems and challenges as comparative politics writ large, particularly the issue of institutional endogeneity. Attention to endogeneity is central to better understanding the workings of decentralized governments and providing less facile policy recommendations for the reform of places as diverse as the United States and Iraq.

INTRODUCTION

Decentralized federalism is either the salvation or damnation of a prospective Iraqi constitution. The European Union's centralization of authority continues after 30 years, only recently slowed in the face of popular uneasiness. In the meantime, legions of developing nations experiment with the decentralization of key public services. Likewise (and despite the recommendations of traditional public finance textbooks), the United States decentralizes welfare policies to the states. Subnational ethnic divisions foster decentralization in Spain, centralization in Nigeria, and civil war in Russia. For those interested in federalism and/or the vertical distribution of governmental authority more generally, recent history provides much to think about and has inspired a return to some of the most important, long-standing questions in social thought. From Montesquieu to Madison to Riker, theorists have asked: Why are some governments more decentralized than others? Why do countries decentralize or centralize? How can a large, diverse society hold itself together? What are the costs and benefits of decentralizing various policies? And

how does democracy function in a context of diverse local, regional, and national interests?

All of these classic questions have received renewed attention over the past decade from a diverse band of political scientists, economists, historians, and policy experts. Yet despite the timelessness of the issues, recent research is distinctive in one key way—it is explicitly positivist in orientation. Whether one looks to Madison and Hamilton debating the finer points of a strong central government or the attempt by public finance economists over the past half century to define an optimal level of decentralization, the literature historically has been preoccupied with prescribing how government should look according to some normative benchmark, be it efficiency, democracy, or representation. Although concern about improving the quality of government remains a strong element in current research, and U.S. foreign policy adventures have made that concern particularly timely, the recent explosion in the positive political economy of decentralization has focused primarily on the application of contemporary social scientific methods to the development and testing of a positive theory of decentralization. Especially important has been a focus on the role of institutions in shaping the incentives of decision makers operating in decentralized contexts. Thanks to this emphasis on political incentives, the past decade's research has been extremely rich in insights.

In this essay, I review recent developments in the comparative literature on decentralization and federalism. In doing so, I develop two arguments. First, the comparative research on decentralization and federalism provides a model for how comparative politics can address some of the most profound questions in social science by focusing on a theoretically and empirically tractable aspect of governance. Though focused on the particulars of how decentralized governance works, the research has engaged fundamental issues such as the development of markets, the nature and quality of democracy, and the relationships between institutions, preferences, and decision making. It has done so, moreover, by integrating insights from economics, political science, and history, and using all of the methodological tools available to contemporary social scientists. Second, although the body of research encapsulates many of the key questions in comparative politics, it also suffers from some of the same problems as comparative politics in general. Most importantly, it is struggling with questions of institutional endogeneity: To what degree are outcomes simply a function of the forces underpinning institutions rather than institutions themselves? How do decentralized institutions interact with the social and economic makeup of societies? Are there equilibrium paths of institutional change that suggest that the same institution will have a similar impact in different societies? And what do the answers to these questions imply about the prospects for reforming decentralized systems?

At a time when the United States finds itself engaged in several attempts to engineer institutional solutions in sharply divided societies (Iraq, Afghanistan, Haiti), the shortcomings of facile institutional recommendations are becoming clearer by the day. As a matter of policy, appreciating the complex interactions between institutions, the economy, and underlying features of the polity is central

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to appreciating whether Madison's writings in the *Federalist Papers* have anything to say about a place like Iraq. As a matter of social science, the lack of widespread attention to institutional endogeneity represents the most serious limitation on further understanding decentralized governments and processes around the world.

I begin with a brief overview of the supposed advantages of decentralization the normative literature has traditionally emphasized. I discuss some of the basic assumptions underpinning those supposed advantages and show how rarely those assumptions hold true in the real world. Indeed, the experience with decentralized governance around the world has been exceedingly varied. In order to explain this variation, recent research has emphasized the incentives politicians face in decentralized contexts. Particularly important in this regard have been three sets of institutions—those governing the fiscal system, representation, and political parties. After an overview of developments in these three areas, I underscore the concerns about endogeneity that plague much recent research in this area and discuss recent attempts to address those concerns—in effect to understand how and why institutions emerge and evolve as they have across federations. I conclude with a discussion of promising avenues of research in comparative federalism and decentralization.

CLASSICAL THEORY AND CONTEMPORARY REALITY

Through the centuries, political theorists have given a variety of justifications for the decentralization of government. The authors of the *Federalist Papers* saw the distribution of power into distinct regions as a natural means to check the power of the national government and augment the representation of citizens in each constituent "republic." Building on these arguments, the fiscal federalism literature suggests that decentralized and shared governance ensures a more efficient delivery of public goods, limits government intervention in the economy, brings decision making closer to citizens, and encourages the emergence and maintenance of effective markets as a result of the competitive pressures that decentralized governments place on each other and national governments (Tiebout 1956, Oates 1972, Inman & Rubinfeld 1997). Above and beyond the economic realm, classical arguments assert that some form of federalism or decentralization enhances national unity and consensus, promotes security, protects citizens against encroachment by the state, limits ethnic conflict, and safeguards individual and communal liberty.

Careful examination of these supposed advantages of decentralization exposes the assumptions underpinning them. Indeed, one of the advances of recent research has been to make those assumptions explicit[1] (see, e.g., Weingast 1995, Rodden & Rose-Ackerman 1997). At the micro-level, these advantages assume that citizens and firms are fully informed about which levels of government provide various

[1]Especially relevant is D. Treisman's book-length *The Architecture of Government: Rethinking Political Decentralization*, an unpublished manuscript at the time of this writing.

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services, that they are highly mobile in response to diverse public-service bundles, and that decentralized politicians are benevolent and understand local preferences better than their national counterparts. At the macro-level, it is assumed that there exist democratic institutions of governance and a clear division of authority and policy responsibilities among levels of government. Under such ideal conditions, decentralization has a number of advantages. First, it helps to overcome aggregation problems by bringing policy decisions more closely into line with citizen preferences. Second, decentralized government helps electorates discipline local officials, thus solving agency problems and ensuring that local public-goods bundles reflect local preferences. Finally, local decision makers are constrained by the ability of individuals and firms to "vote with their feet"—a euphemism for their capacity to move to jurisdictions that offer the most attractive package of taxes and services.

These assumptions have run into two general problems. First, at the individual level, decentralized politicians have been less benevolent than hoped, and voters appear less informed about the public goods provided by different levels of government than the normative tradition had implied. In large measure these discrepancies result from the complex intertwining of many functions across national, regional, and local governments. As Grodzins suggested nearly 40 years ago, contemporary public policy more closely resembles a marble cake than the clearly delineated layer cake most normative work has assumed. Thanks to this complexity, citizens can attribute responsibility to the wrong level of government in elections (Gélineau & Remmer 2006); governments can overfish the common pool of tax revenue, resulting in overtaxation (Berkowitz & Li 2000); and multiple levels of government can jointly provide poor public goods (Volden 2005). Second, the macro-experience of many decentralized nations has simply fallen far short of the normative literature's expectations. Decentralized finance and decision making have been associated with poor economic performance in Argentina (Remmer & Wibbels 2000, Saiegh & Tommasi 1999) and Brazil (Samuels 2003), aggravated redistributive conflicts and ethnic tensions in Nigeria (Suberu 2001) and several nations of Eastern Europe (Bunce 1999), and exacerbated inequality in the United States and elsewhere (Obinger et al. 2005).

The combination of unexamined assumptions and outcomes contrary to theoretical predictions has resulted in a widespread rethinking of the normative underpinnings of much traditional research on decentralization and federalism. This rethinking is rooted in the work of Weingast and coauthors on "market-preserving federalism" (Montinola et al. 1995, Weingast 1995). By making the traditional normative assumptions explicit and placing them in a political economy framework, they make clear the importance of institutions and political incentives for the functioning of decentralized governance. They argue that the gains from decentralization will accrue only in contexts where (*a*) there is a clear delineation between the authority of national and subnational officials, (*b*) subnational governments have principal authority over the economy, (*c*) the central government polices the common market, (*d*) each level of government is forced to internalize the costs of

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its own borrowing, and (*e*) the national government lacks the power to alter unilaterally the scope of authority of each level of government. Where such conditions exist, a federation is expected to be market-preserving in the sense that political institutions credibly commit authorities to respect economic and political rights.

Motivated by Weingast's attention to the incentives of politicians operating in decentralized contexts (and some of the loose ends and shortcomings in the market-preserving federalism framework), subsequent work has challenged the idealized notion of decentralized governance as fostering all things wonderful and paid nuanced attention to the ways in which decentralized and intergovernmental institutional settings shape the incentives of politicians vis-à-vis economic policy, distributive struggles, trade policy, regulatory politics, and ethnic separatism. The research outlined below has helped identify the institutional factors that shape the functioning of decentralized government the world over.

DECENTRALIZED INSTITUTIONS AND INCENTIVES

Fiscal Institutions, Common Pools, and Markets

Social scientists have long been intrigued by fundamental questions about the state's capacity to tax, how it spends, why some governments pursue policies consistent with good economic performance and others do not, and whether citizens can hold government accountable for what it does. The tax structure of government is at the heart of comparative research on everything from distributive politics to the fiscal underpinnings of the modern state. In the context of research on comparative decentralization and federalism, these broader themes are addressed with a focus on the intergovernmental organization of the fiscal system. Which level of government collects taxes, how much it collects, the autonomy of decentralized governments in setting tax policy, and how revenues are shared across levels of government have serious implications. The tax structure affects the size of government, its accountability to local and regional voters, and the economic performance of the nation.

Indeed, one of the mysteries that has inspired work in this vein is the abysmal economic performance of some decentralized systems around the world. As the empirical scope of research moved beyond the U.S. case, it became clear that merely decentralizing spending to local and regional governments had not generated tax competition, improved accountability, fostered stronger growth, spurred policy innovation, etc. Indeed, in cases as diverse as Argentina (Remmer & Wibbels 2000, Tommasi 2002), Germany (Rodden 2005), and Brazil (Samuels 2003), spending by heavily indebted provincial governments has contributed to structural fiscal problems and serious economic challenges. More dangerously, fiscal decentralization in Nigeria (Suberu 2001) and Russia (Gimpleson & Treisman 2000) has fostered an occasionally violent competition for central government transfers. Even in the United States, where the states are constitutionally mandated to balance their

budgets and federal bailouts have been rare, the recent recession led directly to state and local governments firing large numbers of social workers, teachers, and police officers, along with dramatic cutbacks in social services.

Recent research suggests that much of the explanation for these outcomes lies with the design of intergovernmental fiscal systems. The problems begin with the democratic challenges associated with breaking or attenuating the link between decentralized taxing and spending. As subnational governments are financed by intergovernmental transfers from taxes raised at other levels of government, the difficulty of assigning responsibility for policy mounts. With complex formulas for matching grants, opaque rules governing discretionary transfers, and policy a function of intricate intergovernmental negotiation and contestation, voters seem prone to take informational shortcuts that weaken the traditional notion of dual national/subnational accountability for distinct policy spheres. Under such conditions, national and subnational governments compete in a game of credit-claiming for popular initiatives and burden-shifting for costly or unpopular programs (Peterson 1995, Volden 2005). Confused by these conflicting claims and complex intergovernmental finances, citizens have a hard time correctly attributing responsibility for public-sector outcomes, even in a comparatively simple system like the United States (Lyons et al. 1992).

The difficulty of attributing responsibility under such complex fiscal systems can contribute to a number of economic problems. The more decentralized governments rely on intergovernmental transfers, the greater the incentives for subnational politicians to engage in the kind of overspending that can threaten the overall economic health of a nation (Rodden 2002). Unable to perceive the true fiscal costs of decentralized spending, voters are likely to over-demand it, and election-oriented subnational politicians have incentives to comply with those demands. Thus, regional voters, politicians, and representatives at the national level all benefit from transfer systems, while externalizing the costs on others in the federation. Likewise, fiscal transfers also have implications for the behavior of national governments. Central politicians struggling with limited fiscal resources have incentives to limit transfers—the center accrues the political costs of collecting the taxes, but it often has limited capacity to recoup the benefits by spending as it wishes. Attempts by the center to limit transfers and provide incentives to subnational policy makers, however, can contribute to labyrinthian reforms that themselves reduce the efficiency of the fiscal system and produce poor policy. Such has clearly been the case with the much-discussed un-funded federal mandates in the United States, although this behavior also has been commonplace in Brazil (Shah 1994), Argentina (Saiegh & Tommasi 1999), Mexico (Giugale & Webb 2000), and elsewhere. Large transfer systems can also encourage bailouts of subnational overspenders (Rodden 2002).

Collectively, these incentives can contribute to an overfishing of the fiscal and monetary base of nations as a whole. Indeed, there is strong evidence that those federations that rely heavily on transfers to finance regional spending experience poorer fiscal performance (Rodden & Wibbels 2002), and case study evidence from Argentina (Jones et al. 2000), India (Khemani 2001), and Germany (Rodden

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2005) suggests that those regions most dependent on transfers within federations run larger deficits. In contrast, where decentralized governments collect most of their own taxes, as in the United States and Canada, voter accountability increases and subnational politicians have weaker incentives to prey on the common pool of national fiscal and monetary policies (Alt & Lowry 1994). The downside of such systems is that recessions can be accompanied by severe public-sector retrenchment as subnational governments are left to fend for themselves.

Attention to these details of fiscal institutions has helped solve an important puzzle lingering from earlier work on decentralization. One of the strongest predictions of the normative public-economics research was that decentralization would contribute to small government. By imposing competition for fiscal resources on and among local, regional, and national governments, decentralization would check the growth of government. Brennan & Buchanan (1980) popularized this notion in what became the "leviathan" hypothesis. Despite concerted attempts to find supportive evidence for an inverse relationship between expenditure decentralization and government size, comparative analyses found nothing or, in some cases, a direct relationship. Only recently, with attention to the features of fiscal systems discussed above, has Rodden (2003) shown that the structure of subnational financing plays a key role in mediating the relationship between decentralization and the size of government. Whereas subnational spending financed by decentralized taxation does induce tax competition and smaller government, subnational spending financed by grants provides incentives for decentralized politicians to grow government for the reasons outlined above.

Their contribution to government growth and macroeconomic problems aside, intergovernmental grants also offer insight into the vote-seeking behavior of politicians. One of the key conflicts in the distributive-politics literature is whether strategic politicians will invest most of their resources in areas with many undecided swing voters (Dixit & Londregan 1998) or focus on areas where they are strong in order to motivate their base (Cox & McCubbins 1986). National grants to regions and localities offer an excellent opportunity to investigate the vote-purchasing behavior of incumbents. Although such work is in its infancy, the empirical evidence seems to support the mobilizational strategy inherent in rewarding supporters. Thus—despite contrary evidence with regard to environmental transfers in Sweden (Dahlberg & Johansson 2002)—in Argentina (Jones et al. 2000), India (Khemani 2001), and the United States,[2] vote-seeking politicians invest in regions where they are already strong. In exploring these matters, researchers of decentralization and federalism help shed light on one of the most important questions in political science: How do politicians survive?

In focusing on these issues—why some countries grow and others do not, when voters can hold government accountable for taxing and spending, how politicians survive politically, and why government is big or small—research on comparative

[2]Ansolabehere S, Snyder J. *Party Control of State Government and the Distribution of Public Expenditures*. Unpublished manuscript, MIT.

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decentralization has provided insights into some of the key challenges in the social sciences. But despite the importance of these insights for everything from the prospects for sustained economic growth to Medicaid reform in the United States (a topic of sharp intergovernmental contestation), much remains to be done. Most of the research in comparative decentralization has focused on the impact of fiscal systems on efficiency, be it efficiency in policy making or the economy. However, some strong theoretical, empirical, and normative arguments favor central redistribution. The public-finance literature, for instance, has long advocated a redistributive role for the central government, arguing that it is the only level of government able to internalize the externalities inherent in redistribution. Redistributive policies at the regional level, for instance, are likely to foster a race to the bottom in social expenditures. Where decentralized tax bases are narrow or bureaucratic capacity is weak, moreover, centralized taxation with transfers may be the only way to finance decentralized government. Centralized tax-transfer systems often imply the reallocation of revenues raised in one locality for spending in another—a reallocation that can lead to economically inefficient incentives, according to the literature cited above. Yet, where underlying inequalities are severe and/or exacerbated by ethnic divisions, an active equalizing role for the central government via fiscal transfers may be a crucial tool for holding a society together. Indeed, this is exactly the story told by Treisman (1999) in his account of the Russian federation. To date, the literature's emphasis on efficiency has provided limited insight as to when, where, and how the demands for fiscal redistribution and efficiency are complementary or competing.

Institutions of Representation

A second area of intense exploration has been the nature of representation in decentralized contexts. Political science has long been interested in how preferences are translated into policy via political institutions. In highly centralized systems, this process is relatively direct once we understand key features of the electoral system. As the layers of government grow more numerous, so do the institutional parameters shaping policy, and the underlying nature of democracy becomes more complicated. The distinction between federal and unitary systems is sometimes overstated (Rodden 2004; D. Treisman, unpublished manuscript), but in this regard, it is important. Only in the former do we see the systematic inclusion of subnational units in national institutions, be they upper houses of legislatures (such as the Senate) or central banks. More than 200 years ago, Madison recognized the subnational dynamic within federal bodies when he wrote in *Federalist* #46 that

> the members [of Congress] have but too frequently displayed the character, rather of partisans of their respective States, than of impartial guardians of a common interest; that where on one occasion improper sacrifices have been made of local considerations, to the aggrandizement of the federal government, the great interests of the nation have suffered on a hundred, from an undue attention to local prejudices, interests, and views of the particular states.

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Given the strong incentives of regional representatives (such as senators and lower house members) at the national level to pursue policies consistent with regional priorities, it is clear that policy making will depend, in part, on the nature of such representation—the degree to which some units are overrepresented, the balance between national and regional interests in national institutions, etc. Such factors have two important implications. First, they affect who gets represented. Geographically concentrated interests insufficiently strong to find representation in a unitary system, for instance, may be strong enough to capture seats in a federal system with geographically based representation. As a result, national policy in federations is, in part, a reflection of bargains made among regional actors (Cain & Dougherty 1999, Wibbels 2003, Filippov et al. 2004). Second, institutions of representation have implications for the type of interests that are articulated through the political system. Whereas unitary systems encourage the formulation of national platforms and policies, federal systems explicitly give voice to geographically concentrated interests. Depending on the issue (and one's point of view), the result can be either an enriching of national politics or a cacophony of particularistic regional voices.

Although what distinguishes federal from unitary systems is often easier to identify in theory than practice, federal systems typically have national legislative institutions that formally represent provinces or states and regional governments that are themselves elected and have explicit constitutional protections. In a federal context, where representation is regional, each politician's survival requires responsiveness to a distinct constituency. Because much national policy is subject to spillover effects, policy initiatives suffer severe collective action problems—no actor wants to bear the costs of policy changes when the benefits will accrue, in part, to other jurisdictions. In some instances, the representation of subnational interests and the resulting rigidities in the policy-making process have positive effects, as when they check the inflationary bias of national governments (Lohmann 1998), encourage hard budget constraints (Qian &Roland 1999), or generally mitigate the worst tendencies of national governments (Weingast 1995). In other instances, such veto authority can thwart needed reforms and lock in bad policy (Treisman 2000, Wibbels 2005a). The general insight is that federations show a strong status quo bias in many policy areas.

Particular aspects of institutions have important implications for the extent of this status quo bias. Stepan (1999) refers to the sum total of these impacts as either "demos-constraining" or "demos-enabling." The former are characterized by significant obstacles to constitutional reforms, subnational veto authority, and other anti-majoritarian elements. Such institutions are common to "coming-together" federations born in the nineteenth century of pre-existing sovereigns. Demos-enabling systems, on the other hand, tend to have weaker upper houses and fewer super-majority requirements. They are more common in twentieth-century federations aimed at "holding together" former empires (think of Russia) or colonies (India, for instance). Demos-enabling systems provide more authority to the central government, provide weaker subnational representation, and ultimately provide

fewer checks on transitory national majorities. Although the general distinction between demos-enabling and -constraining systems of representation may be too abstract to be useful in nuts-and-bolts empirical research, the institutional ingredients of such systems have important implications for everything from the power of electoral majorities to ethnic conflict to macroeconomic policy making. Where demos-constraining institutions exist, they are likely to strengthen the status quo bias of federations.

Above and beyond policy stickiness, the extent to which small and/or economically weak units are overrepresented in national policy making seems to be particularly important. Echoing research on the United States (Lee & Oppenheimer 1999, Ansolabehere et al. 2003), Stepan (1999) and Samuels & Snyder (2001) have underscored how seriously overrepresentative most federal legislative bodies are. In the U.S. context, Ansolabehere and coauthors (2002, 2003) have shown that under certain conditions, overrepresentation in one chamber of a bicameral legislature (a common feature of federations) can result in systematic biases in spending and grants in favor of overrepresented regions. Gibson et al. (2004) show similar findings in a sample of Latin American cases. On a broader level, in a series of papers Gibson and co-authors (1997, 2000) have found that small, "low maintenance" regions provide central governments with low-cost coalition partners thanks to the significant overrepresentation of sparsely populated, economically marginal regions in national legislative chambers. The result is likely to be what Cai & Treisman (2004) refer to as "state corroding federalism," whereby interjurisdictional competition among regions to extract resources from the center weakens the federation as a whole.

All told, the focus on representative institutions provides general insight into how the organization of representation affects the formulation of policy and the underlying flavor of democracy. Comparativists have long been concerned with how electoral institutions, interest groups, regime type, etc., influence the nature of representation. Research on comparative decentralization and federalism has added to the mix an understanding of how the vertical distribution of authority and the representation of subnational interests affect interest aggregation and policy making in political systems. Again, however, much needs to be done. Most important, it is time to move beyond the general characteristics of institutions to the devilish details that are sure to matter. Which characteristics of malapportionment and bicameralism lead to particular outcomes? How are the bodies of government internally organized and governed? Who gets to initiate bills and what are the implications for legislation? How does the organization of representative institutions impact the various kinds of distributive goods that governments provide? Aside from an important body of work in economics [inspired by Weingast et al. (1981)] on how the organization of legislatures shapes public spending (Persson &Tabellini 1996, Besley & Coate 2003), little has been done to answer these questions. Above and beyond the details of such institutions themselves, it is clear that these institutions operate in a broader game of politics that is shaped by the fiscal and party systems (I return to this issue in the Conclusion). One of the crucial shortcomings

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of the existing literature is its failure to embed particular decentralized institutions in a broader story of the political process.

Political Parties

The research on fiscal and representative institutions presents a static picture of decentralized politics. It helps to explain important differences across countries, but because the institutions themselves tend to change little over the short term, it does not explain what makes decentralized politics so dynamic. Echoing a long-standing strain of work in American politics (Grodzins 1960, Riker 1964, Aldrich 1995), a central focus of recent research has been on the role of political parties in shaping everything from decentralizing trends to ethnic conflict to policy divergence across levels of government (Garman et al. 2001, Samuels 2003, Filippov et al. 2004, Rodden 2005, Wibbels 2005a). Riker's initial insight in this regard was that party systems served as the essential glue in decentralized contexts and that the degree of party-system centralization had significant implications for how power is distributed hierarchically in a political system. As Filippov et al. (2004) explain in an insightful extension on Riker, it is political parties that fundamentally shape the incentives of political elites and thus their interests vis-à-vis the basic institutions of government. Electoral rules and party systems thus provide the milieu in which the rules and institutions governing decentralized governance are negotiated and renegotiated.

Like the research on fiscal and representative institutions reviewed above, this literature picks up on important themes in comparative politics. At the national level, party theorists have stressed the importance of the number of parties, the relationship between constituencies and parties, the social bases of parties, the ideological orientation of parties, nomination procedures, party financing, etc., for the functioning of democracy. To these subjects, work on comparative decentralization is adding an understanding of how the vertical organization of parties affects the incentives of politicians, the intergovernmental negotiation of policy, and the distribution of authority between central and decentralized governments.

One of the key features of party systems is how hierarchical they are. Riker (1964) suggested that the survival of a federation was problematic in the absence of a centralized party system to help coordinate behavior across levels of government and minimize intergovernmental conflict. Recent research has identified other benefits of party-system centralization, while articulating the micro-logic underpinning Riker's argument. The underlying idea is that if national party leaders have substantial capacity to discipline co-partisans at other levels of government, it can be easier for the central government to implement a coherent, unified policy agenda that transcends jurisdictional divisions—a particularly vexing problem in federations such as Brazil (Samuels 2003) and Nigeria (Suberu 2001) where centripetal pressures at the regional and local levels can paralyze policy making. In such cases, national political parties that compete in all of the regions can be a solution to the underlying collective action problem. To the extent that self-seeking

policies by their provincial partisan colleagues might undermine their ability to pursue coherent policies, national leaders can use their leverage over appointments or nominations to create incentives for subnational officials to internalize the costs of their policy choices. Alternatively, where national leaders have few co-partisans at the subnational level, such "vertically" divided government can complicate policy making in much the same way that "horizontally" divided government does (Cox & McCubbins 1992).

Others, however, have emphasized the dangers of top-down party-system centralization. Echoing Weingast's (1995) warning, "A sustainable system of federalism . . . must prevent the central government's ability to overawe the lower governments" (p. 4), other authors have pointed out the challenge that centralized parties represent to many of the fundamental arguments in favor of decentralized democracy (Filippov et al. 2004, Rodden 2005, Gélineau & Remmer 2006). One crucial insight of this research has been that intergovernmental policy coordination need not come via the coercive capacities of the national party. Decentralized officials can have incentives to cooperate or coordinate if they have co-partisans at the federal level whose electoral fates influence their own electoral chances—if, in other words, there are national "coattails." Research on the U.S. case has long recognized that the electoral strength of the nationally governing party has implications for the success of co-partisans at the national (Tufte 1975) and state levels (Campbell 1986). If policy coordination is key to a party's national success and significant coattail effects implicate regional election outcomes in that success, regional officials sharing the party label of the federal executive face incentives to harmonize policy (Rodden 2003). In such cases, it is counterproductive for self-interested regional officials to sabotage the center's attempts to balance budgets or reform social policy by focusing strictly on their own narrowly drawn constituencies. Likewise, national governments that may be tempted to "offload" responsibilities onto decentralized governments, without increasing their access to funding, will find such strategies less attractive if the costs are simply offloaded onto the center's co-partisans.

Aware of the dangers of excessive party-system centralization and decentralization, we are left, unfortunately, with the analytical equivalent of the "three little bears" phenomenon—the porridge is just right when it's neither too hot nor too cold. The problem, of course, is recognizing just right without reference to the outcomes we are trying to predict. Clearly, some very basic aspects of the relationship between parties, accountability, and policy making remain desperately under-studied. Take coattails, for example. Coattails seem to exist in the United States, Germany (Lohmann et al. 1997), Argentina (Gélineau & Remmer 2006), and Canada (Gélineau & Belanger2006), but Samuels (2000) shows that in Brazil state-level elections have reverse coattail effects on national elections. Given the diverse empirical approaches and theoretical angles across what has essentially been a case-study-based literature, it is difficult to say much about why coattail effects run in one direction rather than the other, where they might be stronger than elsewhere, or why that might be the case. Recent cross-national research seeking

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to understand the nationalization of party systems (Cox 1999, Caramani 2004, Chhibber & Kollman 2004) represents an initial step in the right direction. That literature focuses on the specific factors that underpin the coordination of party activity across districts such that district-level candidates find it in their interest to harmonize efforts across constituent boundaries.

In beginning to address these questions, the comparative decentralization literature is at the forefront of efforts to understand how democracy works in comparative context. We have a much better comparative sense than we had 10 years ago of how parties affect the incentives of politicians and the policy-making process in decentralized settings. Much work remains to be done in parsing the nature of democracy and accountability in decentralized settings. Is dual accountability, the bedrock of justifications for decentralization, possible in political contexts where responsibilities are often shared between levels of government? Are decentralized voters equipped with the nuanced information necessary to hold separate levels of government accountable for their performance? What are voters thinking when they case ballots at the local, regional, and national levels? How heterogeneous are regional preferences and what are the implications for party systems? When do national factors loom large for subnational elections? On the flip side, when do subnational dynamics have important implications for national ones? To date, political scientists have yet to build a body of knowledge about why or when national forces play a larger or smaller role in shaping subnational elections—a crucial first step in understanding the complexities of preference aggregation and accountability in decentralized systems. Here, comparativists could start by taking their cue from the case research on the U.S. states. Although disagreements persist in the U.S. literature, and it is unable to address a number of questions that are inherently comparative (e.g., are coattails in the United States long or short?), that body of work provides a baseline for comparative work on subnational elections (Chubb 1988), the intergovernmental links between elections (Peltzman 1987), strategic midterm punishment (Mebane & Sekhon 2002), voters' knowledge of local government (Lyons et al. 1992), etc. If joined with our improved understanding of candidate nominating procedures, party financing, and preference heterogeneity in comparative settings (see Ordeshook & Shvetsova 1994, Carey & Shugart 1995, De Luca et al. 2002), such research would help us understand the ways in which the vertical organization of parties mediates accountability in decentralized contexts.

INSTITUTIONS, ENDOGENEITY, AND THE QUEST FOR SELF-ENFORCING DECENTRALIZATION

It makes sense that institutions have played a prominent role in the burgeoning literature on comparativedecentralization. A fundamental characteristic of democratic politics is that elected elites make binding decisions according to the rules of democratic institutions. Such has been the inspiration behind the trend toward institutionalism across the board in comparative politics as it has built on the

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insights of Douglass North. Yet, as much recent work makes clear (see the Fall 2004 issue of *The Political Economist* for an overview), identifying the causal impact of institutions is a tricky business. Too often, comparative institutionalism asserts causality with no attention to the role of background conditions, the potential for reverse causality, the important distinction between direct and indirect effects, or the difficulty of finding good instruments for institutions in multivariate settings where endogeneity is a reasonable concern. Such approaches have probably contributed to popular suggestions that democracy and federalism are easily developed in places like Iraq. Research in comparative decentralization and federalism has struggled in this regard. We know that many of the institutions and practices we care about are endogenous, but we have been unable to say much about how those institutions evolve and affect current political and economic dynamics. The challenge is twofold. First, how can we have confidence in the causal claims made about the importance of institutions, if they are endogenous to background conditions? Second, can we propose institutional fixes in decentralized contexts, if there are dynamic interactions between institutions and the societies in which they are embedded?

We can see these challenges in each of the areas of research outlined above. With regard to parties, for instance, Riker's suggestion that the degree of decentralization in the party system drives policy and fiscal decentralization has recently been echoed by Garman et al. (2001) and Eaton (2004). Yet in a noteworthy recent work, Chhibber & Kollman (2004) argue exactly the opposite. Likewise, although it is true that fiscal institutions have implications for redistribution, fiscal institutions are themselves a result of political bargains struck among decentralized actors with diverse preferences for redistribution (Beramendi 2005). It should not be surprising, therefore, that decentralized and national leaders periodically try to alter fiscal institutions to their own benefit. Even institutions of representation, the most sticky of the institutions discussed above, are strongly influenced by initial conditions and evolve in response to underlying features of the economy and polity. As Stepan (1999) notes, it is not by chance that societies vary in the strength of the subnational checks on the national government—the negotiators of constitutions have different aims conditional on the underlying problems they are trying to solve in negotiating foundational institutions.

Concerns with endogeneity get to the heart of an underlying concern with reforming (or creating, in the case of Iraq) key features of decentralized governance. To return to the title of this review, it is essential to understand the relationship between underlying conditions and the emergence and evolution of institutions, if reformers are to suggest that Madison has anything to say about the challenges of developing decentralized government in a place like Iraq. Indeed, generations of researchers of decentralization have been preoccupied with prescribing a set of design principles to achieve such aims as stability, economic growth, and democracy. Mindful of Madison's oft-cited argument in *Federalist* #45 that federal powers "will be exercised principally on external objects, as war, peace negotiation, and foreign commerce" and that state power would "extend to all the objects, which, in the ordinary course of affairs, concern the lives, liberties and properties of the

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people, and the internal order, improvement and prosperity of the State," researchers have sought to allocate the powers of national and regional governments with the belief that there is some optimal federal design, regardless of the social, economic, and cultural characteristics of a given society.

Given the institutionalist orientation of the recent literature, it is not surprising that most of the proposed fixes involve institutional engineering. Whether the challenge be the Argentine provinces' limited willingness to tax themselves, Nigeria's anachronistic combination of decentralized political conflicts with centralized revenue collection, Germany's trend toward bailing out Land governments, or the thorny combination of ethnic and religious divisions overlaid on oil wealth in Iraq, the tendency among both academics and policy practitioners has been to recommend a series of institutional reforms to solve the problems. Calls for tightening soft-budget constraints, for instance, are typically combined with various institutional means for doing so, including the establishment of subnational credit markets, the reform of intergovernmental institutions, and the creation of rules prohibiting budget deficits (Poterba & von Hagen 1999). But of course intergovernmental fiscal institutions are the result of a political process, and calls for their reform often seem technocratic. Two objections come to mind. First, why would self-interested politicians respect new fiscal rules if they run contrary to their interests? Certainly not just because they are rules. Second, if the institutions likely to foster peace or promote growth depend in part on the ethnic or economic makeup of a given nation, attempts at straightforward institutional fixes begin to look hopelessly myopic; a set of institutions that promotes peace in one nation might do the opposite in a nation with different underlying social, political, and economic characteristics. Fiscal decentralization, for instance, may be wise in a society characterized by high levels of equality, but it is likely to foster conflict where high levels of inequality exaggerate ethnic differences.

A relatively small body of research has taken up this challenge, focusing on the initial bargains that create decentralized institutions. The most common approach is to ask what initial conditions are likely to lead to federation itself. Indeed, this question motivated Riker's (1964) landmark study and he answered it largely with reference to the importance of external military threats. More recently, a body of mostly formal work has explored the role of distributional conflicts in shaping the prospects for federation and its converse—the dissolution of nations (Bolton & Roland 1997, Alesina & Spolare 2003). In these accounts, regions or localities must weigh the benefits of integration against the costs of redistributive policies within a prospective union that deviate from their preferred outcome. Similarly, historical work in contexts as diverse as Mexico (Diaz-Cayeros 2006), the United States (Wallis 2002, Wibbels 2003), and Argentina (Iaryczower et al. 2003, Gibson & Falleti 2004, Wibbels 2005b) emphasizes the ways in which diverse regional preferences over the shape of the national government are negotiated and institutionalized at key moments of constitutional innovation. Explicit in much of this work is the suggestion that many important questions underpinning comparative research on decentralization can be understood only in light of the limitations

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placed on the power of central governments and popular sovereignty at the foundings of federations. Careful attention is paid to the key factors that shape the evolution of those initial bargains.

Aside from the quest for the factors that account for the coming together of nations, a related body of research has explored the conditions under which decentralized institutions become self-enforcing. Mirroring a broader literature that recognizes that institutions have sharp redistributive consequences and thus generate incentives for elites to alter them (Przeworski 1991, Greif & Laitin 2004), the key question is why some institutions show impressive stability whereas others become subject to contention. De Figueiredo & Weingast (2005) frame the issue as a tradeoff between the national government's tendency to overawe the constituent units and the constituent units' tendency to free-ride on the national government. In their model, a self-enforcing dynamic sets in when institutions impose high penalities for subnational shirking and provide trigger strategies for subnational responses to national encroachment. In contrast, Filippov et al. (2004) eschew the distinctive institutional features of federations—the balance between national and regional competencies, the nature of regional representation in national policy making, the relations among regional units—and point us in a different direction. Constitutional stability, they argue, is to be found neither in the nature of constitutions themselves nor in the rules governing the changing of constitutions, but in the institutions that govern political competition among elites—and party systems in particular. They argue that where parties are horizontally and vertically integrated and encourage politicians at all levels of government to avoid divisive challenges to the institutional status quo, the core rules of the game are likely to be respected. Only thus will the decentralized institutions of government be endogenously self-enforcing.

Although such work is just beginning, one of the key findings to emerge from its attention to endogenous institutions is that the underlying level of inequality across decentralized units affects institutional design and shapes incentives and outcomes. Volden (2005), for instance, explains that under certain conditions, considerable heterogeneity across regions produces worse decentralized public-goods provision than in centralized contexts. In an important recent paper, Cai & Treisman (2005) show that when there is significant divergence in initial endowments across regions, open markets actually encourage economically inefficient behavior rather than market-friendly competition on the part of poor regions. Bolton & Roland (1997) emphasize how the distribution of income within and across units within countries shapes underlying demands for redistribution and the likelihood for separatist regions driving the breakup of nations. Finally, Beramendi (2005) and Wibbels (2005b) link levels of inequality across regions to the design of constitutions and other institutions governing inter-regional redistribution—in essence endogenizing initial constitutional and institutional moments to the underlying distribution of income in decentralized contexts.

These early attempts to endogenize decentralized institutions are imperfect. They often rely on unrealistic, simplifying assumptions (the median voter is

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particularly popular) and tend to ignore the political processes underlying institutional evolution. As a result, the accounts tend to the mechanical and lack political dynamism. Yet, they also raise a host of fascinating questions. Recent debates on institutionalism should remind researchers of all methodological stripes to pay careful attention to the origins of institutions, their evolution in response to underlying features of societies, the potential for mutual causality, and the danger of prescribing institutional reforms given the state of our knowledge. As such, comparative decentralization research faces three simultaneous requirements: First, a continuing commitment to figuring out which institutions matter and why; second, a renewed focus on understanding how institutions and economic/social structure interact to shape incentives; and third, a new attempt to think about equilibrium paths from one set of institutions to another given that economic structures and resulting individual incentives vary across cases. Meeting those challenges requires integrating insights from constitutional political economy, comparative federalism, and economic geography, with a significant amount of comparative historical research and/or formal theory.

PROSPECTS AND CONCLUSIONS

The boom in comparative research on decentralized governance mirrors developments in comparative politics more generally over the past decade. Most notably, the research has become more explicitly social scientific. The field research has been aimed more squarely at comparative theory building; formal theory has come to play an important role in clearly spelling out assumptions and generating hypotheses; and quantitative research has been particularly valuable in examining the impact of decentralized governance on economic outcomes. This particular area of comparative politics also enthusiastically crosses subfield and disciplinary boundaries. Researchers continue to draw inspiration from research on American politics, increasingly participate in debates in international relations and economics on the impact of open markets by looking at the distributional implications of free trade across units within federations, and integrate insights from formal theory, large-*n* empirical work, and economic history. Few areas of comparative politics have seen as seamless a dialogue between political scientists, economists, historians, and public policy specialists. And all of this eclecticism has paid off. The research has managed to accumulate knowledge while remaining focused on the broader motivations and implications that bear on comparative politics and social thought writ large. Indeed, this research agenda is exemplary in comparative politics in this regard. Whereas some areas in comparative politics (the study of legislatures, for instance) are in danger of going the way of much of American politics, where specialization and empirical nuance have left the big democratic issues aside, research in comparative decentralization has remained theoretically driven and truly comparative.But despite the tremendous gains in understanding the politics of decentralized governance over the past decade, this research is truly

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in its infancy. Aside from the issues raised above, five areas are in desperate need of attention.

First, and most important, although the literature addresses general issues in comparative politics, it has been oddly compartmentalized. Studies of fiscal, party, and representative institutions have evolved largely in isolation from each other. As a result, we have a very weak understanding of how the fiscal system, for instance, interacts with and is embedded in representative and partisan institutions. Above and beyond the dynamic relations among institutions, a broader approach to decentralization would have to begin with the underlying political dynamics in societies—from the underlying structure of the economy (Beramendi 2005) to the competitiveness of national and decentralized politics (Beer 2001, Caplan 2001, Wibbels 2005a) to the heterogeneity of preferences across nations' political geographies (Ordeshook & Shvetsova 1994). Given the complexity of the interactions among underlying conditions, key institutions, and transitory political dynamics, the challenge is daunting. As Treisman notes in an important recent work, "There are simply too many effects, interacting in too many ways, with results dependent on conditions that are too obscure and numerous" (unpublished manuscript; see footnote 1). Although he suggests it might be impossible to generate any general predictions, it should at least be possible to model the policy-making process in decentralized settings in a manner that more fully integrates the insights of the past decade of research.

Second, we know very little about why there seems to be so much variation in the behavior of subnational governments. The overwhelming preponderance of research in this area has been preoccupied with the relationship between central and decentralized governments as a whole. Yet, as demonstrated by research on the United States (Brace 1993), Mexican (Beer 2001, Diaz-Cayeros 2006), German (Rodden 2005), Indian (Chhibber & Noordunnin 2004), and Argentine (Wibbels 2005a) provinces and states, decentralized governments themselves vary significantly in the competitiveness of their politics, their economic policies, their interest group constellations, etc. Most such work, however, has been case-oriented. Further understanding the ingredients of these differences is crucial where decentralized politics plays a key role in national policy making. In such cases, national politics often consists of provincial coalition building, and understanding the dynamics of such coalitions requires understanding the factors that shape the diverse incentives of subnational politicians. Why do the mechanisms to hold regional governments accountable for their policy choices vary so substantially? Why do some regions clamor for fiscal bailouts and others not? Under what conditions can a coalition of such demands control the national agenda? To what degree do explanations of regime type, economic performance, etc. developed for national governments account for subnational variation? Answering these questions will require a truly comparative politics of subnational governance, something that has been oddly lacking over the past decade.

Third, considerable research points to the profound local effects of an open international economy, especially the geographic concentration of economic activity

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in relatively few areas (Ades & Glaser 1995, Krugman 1991). These effects are particularly noticeable in developing nations, where mega-cities are obvious islands of economic dynamism. Indeed, the economic potential of northern Mexico, greater Buenos Aires, São Paolo, and Moscow stand in stark contrast to the large number of poor and economically uncompetitive regions in those nations. This economic concentration represents a particularly difficult challenge for federations, with their geographic fragmentation of political authority, but there are certain to be implications for all manner of nations. If, for instance, we take seriously the finding in the OECD welfare-state literature that exposure to trade contributes to more significant social effort on the part of government, it would be worth investigating how the subnational distribution of trade exposure affects the redistributive politics underpinning welfare regimes. There are many other ways in which economic and political geography interact to shape outcomes. Yet if, as Krugman (1991) explains, economists do not understand geography very well, political scientists have almost wholly neglected it.

Fourth, the promise of national unity through regional diversity has recently made decentralization a favorite answer for deeply divided societies, especially ethnically heterogenous ones (Hechter 2000, Amoretti & Bermeo 2004). We know, for instance, that decentralization can be an invaluable institutional mechanism for balancing centripetal and centrifugal forces in ethnically or religiously plural nations (Hechter 2000). It is difficult to imagine the survival of ethnically and religiously divided India or Nigeria as we currently know them, absent some form of decentralized governance. Likewise, Treisman (1999) has argued that the survival of Russia in the aftermath of the fall of communism was due in large part to that nation's federal arrangements and the national government's capacity to purchase the acquiescence of separatist regions with fiscal transfers. But given the unequal regional costs and benefits of economic openness and the declining costs of cross-national economic exchange in a globalizing era (Alesina & Spolare 2003), the challenge of maintaining territorial integrity in ethnically contentious federations is likely to become more difficult. There are differences of opinion, however, over the capacity of decentralization to solve such problems. Whereas some argue that federal institutions reduce the likelihood of armed rebellion by providing minority groups with more opportunities to voice their political opinions (Hechter 2000), others point out that federalism may encourage nationalist mobilization and, therefore, fuel intergroup conflict (Bunce 1999). The empirical diversity with respect to decentralization's capacity to negotiate these contentious waters suggests a wealth of important research questions: What policy spheres are best left in the hands of regionally concentrated minorities? How should national transfers work in contexts of mounting regional inequities and ethnic tensions? Is there an optimal level of fiscal decentralization, or does that level depend on the economic capacity of ethnic regions across federal systems? How should ethnic regions be represented in the national policy-making process? There are certainly no easy answers. Parsing the interactions and conditional effects will be difficult, but given the titanic and mounting costs of civil conflict across the world, the task demands attention.

Finally, the existing literature suggests the importance of more work on comparative decentralization even by scholars not explicitly interested in the subject. Throughout this essay, I have emphasized the ways in which research in comparative decentralization and federalism has engaged comparative politics at a theoretical level. Yet subnational governments in federal systems can also provide an excellent empirical setting for exploring arguments in comparative politics. Indeed, a growing list of scholars are using the subnational diversity of large, federal states such as India or the United States to test hypotheses developed in studies of nation-states in the international system (see, e.g., Remmer & Wibbels 2000, Besley & Coate 2003, Chhibber & Nooruddin 2004, Besley et al. 2005, Goldberg & Wibbels 2005). Such approaches have important methodological advantages. Inherent in comparative politics work is some degree of unmeasured cross-national variation that is difficult to control for in small-*n* studies and is consumed by either the error term or country dummies in large-*n* settings. This is the stuff that researchers do not know, do not understand, or cannot measure but that has a bearing on outcomes across nations. By analyzing states within a federation, we are able to control for legal practices, institutions of government, party systems, etc. that might impact outcomes of interest but that are unmeasured or poorly measured in cross-national work. Who knows? Given the emerging popularity of the U.S. states as a laboratory for comparativists, such studies might even begin to bridge the gap between studies of American politics as a sui generis undertaking and those of comparative politics—that is, the rest of the world.

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