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Federalism in an Increasingly Self-Conscious World:Implications for Democracy, Markets and Institutional Stability

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Abstract

This paper is of the view that after the Second World War, nation-building techniques such as federalism gained popularity, particularly in the British Commonwealth. Perhaps the most practical solution for a nation with a diverse population, the federal concept was championed by the British imperial powers in many of its former colonies. Similarly, when the federal system came to be seen more and more as a means of managing conflicts in nations devastated by war, interest in it grew in the post-Cold War period. This paper believes that because of its many uses, federalism is embraced by many nations for varying reasons and in reaction to various circumstances. Large-sized and populous nations find the system especially appealing. As a way to attain unification, it is particularly alluring to nations with a high level of social variety. This paper stresses that the question of the merits (and drawbacks) of various forms of federalism is linked to the inability of the European Union to provide an institutional response to the sovereign debt crisis, the growing challenge in Catalonia to the current structure of the Spanish state, or, in a different context, the failure to create a stable framework for the coexistence of different identities in Iraq. This paper points out that scholarly interest in the subject is being rekindled by the changing geography of political contestation and warfare in the post-Cold War world. The notion of federalism, federation, and confederation is discussed in the first section. The history of federalism and its effects on the operation of markets and democracies are then covered. The conventional approaches for studying federalism are also looked at, along with an alternative framework known as the political economy approach. In closing, this paper touches on the dynamic characteristics of federalism as an imperfect contract and how it affects the institutional stability debate.

Keywords: Federalism, Federation, Confederation, Democracy, Markets, Institutional Stability.

الفيدرالية في عالم متزايد الوعي الذاتي: الآثار المترتبة على الديمقراطية والأسواق والاستقرار المؤسسي

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خلاصة

ترى هذه الورقة أنه بعد الحرب العالمية الثانية، اكتسبت تقنيات بناء الأمة مثل الفيدرالية شعبية، خاصة في الكومنولث البريطاني. ولعل الحل الأكثر عملية لدولة ذات تنوع سكاني متنوع، هو أن المفهوم الفيدرالي كان مدعومًا من قبل القوى الإمبراطورية البريطانية في العديد من مستعمراتها السابقة. وبالمثل، عندما أصبح يُنظر إلى النظام الفيدرالي أكثر فأكثر كوسيلة لإدارة الصراعات في الدول التي دمرتها الحرب، زاد الاهتمام به في فترة ما بعد الحرب الباردة. تعتقد هذه الورقة أنه بسبب استخداماتها المتعددة، فقد اعتنقت العديد من الدول الفيدرالية لأسباب مختلفة وكرد فعل لظروف مختلفة. تجد الدول الكبيرة الحجم والمكتظة بالسكان هذا النظام جذابًا بشكل خاص. كوسيلة لتحقيق التوحيد، فهي مغرية بشكل خاص للدول ذات المستوى العالي من التنوع الاجتماعي. تؤكد هذه الورقة على أن مسألة مزايا (وعيوب) الأشكال المختلفة للفيدرالية مرتبطة بعدم قدرة الاتحاد الأوروبي على تقديم استجابة مؤسسية لأزمة الديون السيادية، والتحدي المتزايد في كتالونيا للهيكل الحالي للديون الإسبانية. الدولة، أو، في سياق مختلف، الفشل في خلق إطار مستقر للتعايش بين الهويات المختلفة في العراق. وتشير هذه الورقة إلى أن الاهتمام الأكاديمي بالموضوع يتجدد من جديد بسبب الجغرافيا المتغيرة للتنافس السياسي والحرب في عالم ما بعد الحرب الباردة. تمت مناقشة مفهوم الفيدرالية والفدرالية والكونفدرالية في القسم الأول. ثم يتم تغطية تاريخ الفيدرالية وآثارها على عمل الأسواق والديمقراطيات. كما يتم النظر في الأساليب التقليدية لدراسة الفيدرالية، إلى جانب إطار بديل يعرف باسم نهج الاقتصاد السياسي. في الختام، تتناول هذه الورقة الخصائص الديناميكية للفدرالية باعتبارها عقدًا غير كامل وكيف تؤثر على النقاش حول الاستقرار المؤسسي.

الكلمات المفتاحية: الفيدرالية، الفيدرالية، الكونفدرالية، الديمقراطية، الأسواق، الاستقرار المؤسسي.

Introduction

Following World War II, nation-building strategies such as federalism gained traction, particularly in the British Commonwealth. In several of its former colonies, such as Canada, India, and Nigeria, the British imperial powers championed the federal concept as the most practical choice for a nation with a diverse population. Similar to this, the federal system saw a rise in popularity in the post-Cold War era as it was increasingly seen as a means of managing conflicts in nations devastated by war, as seen by the experiences of Ethiopia (1995), Bosnia and Herzegovina (BiH) (1995), and Iraq (2003). Due to its many benefits, various nations embrace federalism for different reasons and in reaction to diverse circumstances. Large, populous nations like Australia, India, Nigeria, and the United States of America find the system especially appealing. As a way of attaining unification, it is particularly alluring to nations with large levels of social variety, such as Ethiopia, India, and Nigeria.

Due to the system's adaptability for the variability present in those countries, federalism, for instance, was highly anticipated in Africa throughout the 1950s (Burgess 2012a). However, this hope vanished as other federations, like Rhodesia and Nyasaland (1953–1963), collapsed. Beyond the particular founding fathers' aspirations and the British federal impulse (Burgess 2017), the acknowledgment of variety serves as the impetus for the development of the federations in Nigeria and India. The federal system was established in these two nations in an effort to "keep together" the many components that make up each nation (Stepan 1999).

The issue of the benefits (and drawbacks) of various forms of federalism is relevant to the European Union's inability to provide an institutional response to the sovereign debt crisis, Catalonia's mounting challenge to the Spanish state's current structure, and, in a different context, Iraq's incapacity to create a stable framework for the coexistence of multiple identities. Scholarly interest in the subject is being reignited by the changing geography of political contestation and warfare in the post-Cold War world. The notion of federalism, federation, and confederation is discussed in the first section of this paper. After that, the discussion shifts to the history of federalism and how it affects how markets and democracies operate. The political economy approach, a different analytical framework, is also looked at in addition to the conventional approaches for studying federalism. This paper concludes by quickly touching on the dynamic elements of federalism as an imperfect contract and how it affects the issue of institutional stability.

Conceptual Issues: The Nature of Federalism

It is also crucial to define several words that are thought to be pertinent to the study of federalism. In order to prevent abuse, it is now more common in federal studies to define terms like federalism, federation, and confederation and consider them as distinct ideas. Given the differences in meaning between federalism, federation, and confederation, conceptual clarity is especially crucial.

Anglo-American scholars on federalism generally agree that Preston King was the first to point out the differences, especially between "federalism" and "federation," in his 1982 book *Federalism and Federation*. The majority of writers, he bemoaned in that research, "make no distinction at all" between these phrases (1982: 20). However, it should be noted that the American founding fathers used the terms "federal, confederal and federation, confederation and confederacy" interchangeably, as if they meant the same thing, as noted by the distinguished Nigerian political science professor Eme Awa in his 1976 book *Issues in Federalism* (1976: 1). According to his argument, a confederation differs from a federation in current use since it is defined as "a union of states which retain their independent status" (1976: 1), yet "neither the central nor the regional governments are subordinate to each other" under a federation setting (1976: 4). Burgess (1993: 12) noted, in line with King, that "some scholars still use the terms "federalism" and "federation" interchangeably to refer to both a process and a terminal end-point," and that most political analysts frequently refer to "federalism when they mean federation." Verney (1995) also pointed out that "federalism" and "federation" are sometimes used interchangeably (1995: 82). The aforementioned findings demonstrate the degree of agreement that federalism, federation, and confederation have distinct meanings and have to be handled accordingly. Thus, let us begin by defining federalism.

Federalism is a vague and challenging word to describe, just like many other social science notions like freedom and justice. As noted by Birch (1966: 15) and Duchacek (1970: 189), federalism is, in reality, an ill-defined notion. To various people, federalism might signify different things. Despite the challenge of accurately describing this idea, past authors have

left us with several insightful definitions. In light of this, federalism has been defined in a variety of ways, including as a principle (Wheare 1963), a political philosophy, an ideological stance that supports regional autonomy and independence (King 1982: 74), a principle that involves "the constitutional diffusion of power" between the federal government and its constituent governments to achieve shared and self-government (Elazar 1987: 5–6; Elazar 1973: 3), and a "value concept" that underpins federation (Burgess 2016: 2).

Although the meaning of federalism varies among individuals, there appears to be one constant concerning this form of government: the underlying "principle" that sets it apart from others. Federalism is very distinctive because of this idea, which Wheare had dubbed the *federal principle*. It is described as the "method of dividing powers so that the general and regional governments are each, within a sphere, co-ordinate and independent" (Wheare 1963: 10). The concept that each level of government should be independent of the others and the question of the distribution of powers are central to this definition. A confederation is an organization of states in which "the general government is dependent upon the regional governments." (Wheare 1963: 32). Therefore, it is crucial to examine the concept of independence as it is employed in this definition. Wheare used the term "independent" to describe a system in which each level of government is free to carry out its independent duties without absolute power over the others. According to another reading of this term, there is no hierarchy between the national and local administrations.

Wheare's theory undoubtedly presents an application challenge because it is impractical for the federal government and the local governments to be independent of one another in any way. Any particular federal system must have some degree of interconnectedness and collaboration in areas that affect citizens' lives in order to function well. The interdependence of the federal and state governments, for instance, is essential to the operation of the American federal system. The federal concept must permit some degree of flexibility if the federal government is to function effectively. Notwithstanding these issues, the idea of the federal principle has been cited as Wheare's most significant conceptual contribution to the field of federalism research (Burgess 2012b: 38). We still understand federalism in ways that are shaped by its tradition. Particularly when comparing federal systems of government, Wheare's definition of federalism and his concept of the federal principle grew to be the most frequently recognized. The first publication on federalism to give a political science student a starting point for studying the concept is his famous work *Federal Government*, which was initially published in 1946.

In order to provide each kind of government specific activities over which it has ultimate say, Riker defined federalism as "a political organization in which the activities of government are divided between regional governments and a central government" (Riker 1975: 101). The independence of these two tiers of government is usually guaranteed by a written declaration in the constitution and the presence of a robust judicial review mechanism. Furthermore, the regions and the center each have their own budgets and are

held solely responsible for elections. Federative governments, as opposed to confederations, have a far stronger institutional position than subnational governments as a result. Therefore, they must work with subnational entities to efficiently manage their political and economic interactions.

Understanding the nature of this relationship between the federal and state administrations in political unions has been greatly advanced by comparative politics of federalism. This meant letting go of the idea that unitary and federal states are homogeneous groups. The awareness of the multifaceted nature of federal institutions resulted from a progressive openness to federal experiences outside of the U.S. context (Stepan 1999). It should come as no surprise that a more realistic depiction of federal reality was sacrificed in favor of a less exact explanation of the fundamental characteristics of the federal model. Canada, one of the classic federations, would undoubtedly be excluded from the federal sample if federalism were strictly defined in accordance with one of its most distinctive characteristics—the representation of regional interests in the federal legislature (Rodden 2014). This is because the Canadian senate lacks the authority to influence federal decision-making. This example shows that defining federal credentials necessitates more nuanced explanations of pertinent institutional characteristics, some of which may not be included in the federal constitution. Examining differences in constitutional and non-constitutional institutions among federations is necessary not only to produce more accurate depictions of federal realities, but also—as the rest of the paper will demonstrate—to offer a more comprehensive understanding of the effects and development of federalism.

Federalism may suffer from conceptual vagueness, but it is undeniable that it emphasizes the separation of powers between two levels of government, at the very least. This is the difference between a unitary and federal political system. Therefore, when we refer to federalism, we mean a political system that supports the political autonomy of the federating governments within the federation and shares competences between the central government and the constituent entities. All that federalism is about is shared sovereignty. Now that federalism has been established, let us try to define federation.

A federation is commonly understood to be a state, a set of states, or a political entity. K. C. Wheare, who based his concept of federalism on the American model, defined federation as:

> An association of states structured so that authority is split between a general government that, in some areas (like signing treaties and issuing currency), is independent of the government of the states involved, and state governments that, in some areas, are independent of the general government (Wheare 1963: 2).

Wheare's definition leaves out the fact that a federation has two or more levels of government that share authority. Each also possesses unique powers. Furthermore, everyone derives power from the people to whom they in turn respond. In a federation, the general government and the component governments both rule over the same area and people, and each government is legally entitled to make some decisions independently of the other, according

to Riker (1964: 5), who agreed with Wheare's description. Similar to this, Ivo Duchacek defined federation as a polity in which political authority is geographically split between two independent governments—the general and the constituent governments—in his 1970 book *Comparative Federalism: The Territorial Dimension of Politics*. According to King (1982: 77), a federation is an institutional structure that resembles a sovereign state and is set apart from other such states only by the fact that its central government includes regional units in its decision-making process on the basis of some firmly established constitutional principle. Federation is defined by Burgess (1993: 5; 2016: 2) as an actual reality consisting of institutions and structures, or as a single sovereign state.

There is a clear parallel between the previous definitions. What unites them, though, is that a federation has two or more separate levels of government, each with a written constitution firmly establishing its existence. The units recognized by the constitution also share a distribution of functions. Furthermore, none of the tiers are under the other. In conclusion, all governmental tiers are directly elected, and their actions directly impact the populace. These are the crucial pillars that support a federation, as was previously stated. Thus, when we refer to a federation, we mean a sovereign state in which the governments of the constituent/federating states and the central/general/federal government have a defined geographical division of authority. While the member governments exercise power over their areas, the central government has authority over the whole territory.

The federal government has sole authority over issues like foreign policy, defense, and currency in many federations, including Nigeria. Scholars have pointed out that the existence of a federal government—an autonomous body that rules the entire nation on certain issues—is another essential component of a federation. Either separately or in combination, these qualities are meant to promote effective governance. However, Wheare (1963: 34) stressed that while federal government is a means to good governance, it is not always and everywhere excellent government. What then are the other goals of federations, other from the justification of good governance? Elazar (1987: 12) argues that the ultimate goal of all federations, including Nigeria, is to express "self-rule plus shared rule" by allocating powers between the federal government for common purposes and the constituent units for local autonomy and the preservation of particular identities and interests. Elazar's belief that a federation is the result of a covenant between the national government and the regional governments undoubtedly influences this claim.

To avoid seeming repetitive, let us clarify that the terms federalism and federation are not the same and should not be used synonymously. The former refers to a system of government that permits both autonomous and shared control, while the latter denotes a type of sovereign state created by political strategists in order to promote national unity while also conserving the nation's variety. Nevertheless, federation may be oversimplified if it is understood to signify a state. Federalism is not always a state, but rather an alliance of "separate political communities" bound by a similar goal or goals but maintaining their unique group identity for other reasons (Friedrich 1968: 7). According to this definition, a federation might be an

association of independent states, as the African Union or the European Union. Independent states have united in these two unions for a variety of shared political goals, mostly economic ones. However, for the sake of this paper, a federation is defined as a sovereign state, such as the United States, Australia, Canada, India, or Nigeria.

Federative states differ substantially from one another concerning the decentralization agreements that specify the allocation of powers between the central government and the subnational units, as well as the rules governing the interplay between governmental levels, such as judicial review and representation of regional interests in the federal legislature. The distribution of fiscal and policy authority between levels of government is more likely to vary in response to shifts in governments' preferences or relative bargaining power, but the former institutions are more resilient because they are most likely enshrined in the constitution and are therefore less susceptible to change over time. Since it would be beyond the scope (and length) of this paper to address a detailed description of institutional variation across federations, concentration will be in the following paragraphs on two of the most significant institutions that mediate the interaction between the center and the units: the representation of regional interests in federal decision-making and the organization of the party system and electoral competition. Furthermore, efforts will be made to showcase some metrics regarding the allocation of policy and budgetary power and converse about ongoing advancements and unsolved discussions regarding the quantification of differences in institutional architecture among federations.

The representation of regional interests in the federal legislature varies greatly throughout federal nations; this is evident in the election procedures used for representatives in the upper house as well as in their relative ability to alter majorities in the lower chamber (Elazar 1991; Watts 2018). Representatives are selected by regional incumbents (Germany, Austria), the Prime Minister (Canada), or national lawmakers (India and Austria), whereas in certain countries (Brazil, the United States) they are directly elected from territorial districts. The election of delegates may affect the representation of regional electorates in the federal legislature. While indirect appointment allows national political parties to play a larger role in mediating the representation of regional constituencies, direct election of delegates by the territory's population may enable direct representation of local preferences.

Subnational entities can influence the federal government's decision-making process in a variety of ways. For example, the upper houses of the US, Switzerland, and Germany and Belgium have complete veto power over certain federal legislation, while the upper chambers of Canada, India, and Spain have almost no veto power at all. Negotiations between the federal and regional executives are more likely to be the means through which regional interests are represented in the federal arena in federations with weak upper chambers (Watts 2018). For example, regional governments have the ability to influence federal decision-making in Canada and Spain through a range of formal multilateral negotiation groups focused on policy (León and Ferrín Pereira 2011). In those bodies, political parties are essential to smoothing over intergovernmental negotiations. This is

especially true in highly integrated party systems, where disciplined national political parties foster collaboration between party-affiliated federal and regional chief executives.

William Riker described the party system's significance as the most crucial factor in comprehending cross-national differences in the federalist system's structure, and its importance extends well beyond its function in facilitating intergovernmental interactions (Riker 1964). Partisan harmony (the number of regional chief executives who share party affiliation with the federal chief executive; see Riker and Schaps 1957) and the degree of party system integration have long been used as surrogates for the degree of federation centralization because they provide insight into the federal government's capacity to "overawe" subnational units. In recent times, researchers have endeavored to produce more nuanced depictions of the patterns of political rivalry inside federations by delving into the internal party structures and the extent of interconnectivity between the regional and federal electoral spheres. Vertical lines of authority and accountability within parties are defined by variables like local politicians' reliance on central government party officials for nomination, funding, or career advancement. These variables seem to favor subnational politicians in federations like Brazil and, less consistently, in Argentina, while they favor central party officials in Mexico (Eaton 2014; Montero and Samuels 2014; Thorlakson 2019; Willis et al. 2021).

The division of budgetary and policy power between the federal government and the subnational entities is another area where federal nations differ from one another. The preponderance of shared authority across several levels of government is the most distinctive aspect of policy decentralization in federations (see Henderson's *decentralization index* 1; Watts 2013). This indicates that the formation of shared policy authority between the center and the units has been the primary driver of the recent, broad shift towards decentralization (Arzaghi and Henderson 2015; Dillinguer 1994; Rodden 2016).

Undoubtedly, the well-organized allocation of powers envisioned in The Federalist Papers differs greatly from the intricately entwined structure of governmental power in contemporary federal states. Nonetheless, there are some variations in the degree of overlapping jurisdictions throughout federations. The executive and legislative branches typically overlap at one level of government in the US, Canada, and Australia, which reduces the need for cooperation in policymaking. State and local governments in Germany, Austria, or Switzerland have executive responsibility over federally mandated policy areas (Watts 2013). This involves a more intertwined distribution of executive and legislative authority that allows for further flexibility in policymaking, but at the cost of lower clarity of responsibilities.

The most contentious matter concerning the allocation of power between the central government and the subnational entities pertains to fiscal powers, as the control over income and expenses embodies the fundamental aspects of subnational self-governance. If choices regarding the collection, allocation, and use of funds continue to be made at the central level, then high degrees of policy decentralization may entail restricted subnational autonomy.

Scholars in the field have historically found it difficult to measure the degree of fiscal decentralization between federations, mostly because there are insufficient comparative statistics on subnational revenue autonomy. Fiscal decentralization has frequently been measured using data on expenditure decentralization from the IMF's Government Finance Statistics (share of state and local expenditures over total government expenditure). Expense decentralization, however, falls short of capturing the degree to which subnational governments have complete control over subnational income. Because of this, it frequently overestimates the total amount of fiscal decentralization while ignoring a large amount of diversity in subnational fiscal autonomy within federal nations.

More accurate depictions of the differences in fiscal decentralization among federations have been achieved by recent efforts to measure subnational fiscal autonomy (Rodden 2014; Stegarescu 2015). In terms of subnational revenue autonomy, the most fiscally decentralized countries are the United States, Canada, and Switzerland; in contrast, Austria, Belgium, and Australia have more centralized subnational revenue autonomy regulatory frameworks.

Federations differ greatly in the institutions and practices that govern the relations between the various tiers of government as well as in the precise allocation of authority between the federal government and the subnational entities. Empirical scientists have seldom tackled the methodological problem of condensing this multidimensional diversity into a comparable indicator of decentralization (Arzaghi and Henderson 2015). The most significant recent development in the field is the release by Hooghe, Marks, and Schakel (2021) of a Regional Authority Index, which assesses the power of regional administrations in 42 democracies or quasi-democracies between 1950 and 2016 using eight different variables. The two compounded indicators that make up the Regional Authority Index are the *Self-Rule Index*, which gauges the power a regional government has over its citizens, and the *Shared Rule Index*, which gauges the power a regional government has over its representatives nationwide. Even though this dataset has made a substantial empirical contribution to measuring the constitutional and non-constitutional aspects of decentralization in various nations, more work needs to be done in the field to provide a more comprehensive picture of the fiscal arrangements that exist across the spectrum of decentralization.

Now that we have discussed the conceptual distinctions between federalism and federation, let's look at what confederation, also known as a confederacy, actually means. Confederation is typically compared with the federation. A confederation and a federation are not the same thing. A confederation is a union of states, but a federation has more binding characteristics. A confederation's member states maintain their independence and enjoy a high level of autonomy.

More significantly, a confederacy has sovereign and independent entities with comparatively little general (confederal) power. A confederal authority's reliance on the states that have united to create the union is what makes this system special (Wheare 1963: 32). Within a confederacy, the founding states maintain significant political authority while also

maintaining their unique identities. This is not to say that certain authorities aren't turned up to the federal government for shared goals like mutual security, but they are often quite small. The fact that a confederation's government has no direct jurisdiction over its citizens—who have indirect authority over the confederal government and are directly governed by their respective independent component governments—is another important characteristic of confederations. In a federation, on the other hand, when citizens have direct ties to both the federal government and their states, the situation is the reverse. Confederations include the United States prior to 1787 and the Swiss Confederation prior to 1848. Federal systems have supplanted confederal systems, which are out of style. For example, the Americans abandoned the Confederate system in favor of a nearly ideal union, maybe as a result of the system's innate flaws. The Preamble to the US Constitution, which reads as follows, reflects this:

We the people of the United States do ordain and establish this Constitution for the United States of America in order to form a more perfect Union, establish justice, ensure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity.

Revisiting the Origins of Federalism: External Pressure, Domestic Trade-Offs, and Inherent Institutional Designs

Understanding the centripetal and centrifugal factors that combined to form federations and how these forces affect the functioning of federalism in federal states may be gained by looking at the history of federalism. Indeed, a variety of theories have been put out to explain the causes of federations. For the sake of convenience, these explanations are combined under two perspectives: the socio-economic perspective, which contends that certain social and economic conditions lead to the formation of federations, and the political perspective, which emphasizes the existence of certain political factors.

The Socio-Economic Perspective

According to the socio-economic theory of federalism's origins, specific social and economic circumstances led to the creation of a federal form of government. The *Federal Government*, a seminal text by the father of federalism, Kenneth C. Wheare, is the best location to begin delving into this point of view. Wheare noted in that groundbreaking study that a combination of political, social, and economic forces led to the creation of the United States, Canada, Australia, and Switzerland as a Federation. It is worthwhile to repeat these elements in full here:

An understanding that unity was the only way to secure independence from foreign powers; a sense of military vulnerability and the ensuing necessity for unified defense; a desire for economic gain from union; a political affiliation among the affected communities before their federal merger; a close-knit community; and a degree of institutional resemblance between the political systems (1963: 37).

While these "prerequisites" are important, Wheare believes that the goal of forming a federal union is much more important. The important thing to remember is that these prerequisites

alone do not automatically result in a federation; political leaders must also want to create a union. Stated differently, states' or communities' willingness or desire to unite for certain goals is what essentially propels the development of a federation. In other words, they should aspire to unity rather than unitary (Wheare 1963: 36). Therefore, Wheare believes that the desire of the leaders of the affected areas to be a part of a single, large political entity is crucial. Karl Deutsch and his study associates echoed Wheare in highlighting the importance of the socioeconomic circumstances.

Similar to Wheare, Watts (1966: 66) contended that the importance of political, social, cultural, economic, and historical factors in the formation of the modern federations cannot be overstated, but that the requirement of common defense was significant only in the Asian federations. Watts based this argument on his empirical study of the six "new federations," which include India, Malaysia, Nigeria, Pakistan, Rhodesia and Nyasaland, and the West Indies. He went on to say that the reasons for a union in the developing nations are more nuanced than in the "old federations" of the United States, Australia, Canada, Switzerland, and so on.

However, these additional unifying qualities that were often found in the old federations (federal states that have been founded) are also found in the new federations and frequently give rise to a desire for unification. According to Watts, the creation of a federal union depends on the following eleven elements:

The aspiration for political autonomy; the expectation of financial gain; the necessity for efficient administration; the improvement of diplomatic and military relations; a shared perspective based on race, religion, language, or culture; geographic considerations; historical influences; the resemblances and differences between indigenous and colonial political and social structures; the nature of political leadership; the persistence of earlier, successful models of federal union; and the United Kingdom government's influence in the drafting of constitutions (Watts 1966: 42).

All these elements have the capacity to be either "unifying or separating," or "centripetal or centrifugal" (Davis 1978: 128; Watts 1966: 42; Wheare 1963: 40). Stated differently, certain elements contribute to unity, whilst other aspects lead to disintegration. In his final analysis of the new federations, Watts outlined the two key characteristics that all of them shared with regard to the creation of their federal governments: the geographical distribution of the diversity within each of these societies, which gives rise to demands for regional political autonomy; and the existence of a desire to unite in some way (Watts 1966: 93). The overarching thesis of these experts' opinions is that federations cannot be formed in a vacuum; social and economic forces must also be taken into consideration, along with the desire to unite. However, Davis (1978: 141) criticized the idea of the desire for unity as stated by Wheare and supported by Watts, questioning the feasibility of measuring a "balance of desire." According to him, the formation of federal unions cannot be explained by "[a] theory of federal parturition relying on a balance of ambivalent desires." Burgess (2016: 81), however, argues that "analytically, there is a two-step process involved in the creation

of a federation: the first is the desire for union while the second is the decision to have a federal union," which lends credence to Watts' argument. Burgess's analysis of the federations of Australia, Austria, Canada, India, Germany, Malaysia, and Switzerland serves as the foundation for his theory.

The Political Perspective

Among all the publications on the political theory of federal formation, William H. Riker's *Federalism: Origin, Operation, Significance*—first published in 1964—has garnered the greatest attention. Regarding his efforts to create a political science that would offer "testable and tested generalizations," Riker was forthright. Riker's theory of federal formation may thus be better understood by starting with his conception of federalism. According to him, federalism is "a bargain between prospective national leaders and officials of constituent governments," often with the aim of laying taxes, building armies, and gaining territory (Riker 1964: 11). Riker's theory of the birth of the federal government makes sense if one assumes that federalism is the result of political negotiation between reasonable politicians; this description also implies that the negotiation is akin to an offer and acceptance in a contract. Furthermore, the "rational" politicians making the offer must be persuaded of the advantages that come with the proposed union, and their counterparts who accept it must likewise be persuaded that joining a union has more benefits than drawbacks. Why, therefore, do elites provide such an offer, and why do their peers accept it?

Riker's idea is based on two conditions: the military condition and the expansion condition. Both conditions are required for the establishment of a federation and are always included in the federal contract. Put differently, these two circumstances were found in almost all federations, such as Nigeria, Malaysia, and India, which, according to Riker, all had similar formations. Riker introduced his thesis by categorically rejecting the notions that federalism was created among polities with shared interests as "reductionist fallacy" and that it was accepted as a guarantee of freedom as "ideological fallacy" (Riker 1964: 13–15). His opinion that the concepts excluded the political component of federal formation—a political agreement between two groups of politicians—was the foundation for this critique. Riker's position is better expressed as follows, especially in relation to Deutsch's nine "essential conditions," which were previously mentioned:

"It omits the essential condition of the disposition to make the bargain by avoiding the political and the act of bargaining itself" (Riker 1964: 16).

Riker continued by arguing that the list only offers a collection of often seen circumstances that encourage politicians to have a tendency to come together. Therefore, Riker believes that past theories on federation formation are more ideological than scientific.

Riker's assertion now needs to be verified inside a few of the federations he researched, starting with Australia. Here, he acknowledged that there was no immediate threat at the time the federation was founded, but that economic concerns cannot be entirely disregarded in its development. Nonetheless, he made clear that the decision made by the nation's founders was influenced by some "military-diplomatic concerns." Riker's two main points

about Australia can be summed up as follows: first, that the fear of Japanese imperialism in East Asia prompted the formation of the federation, and second, that due to the relative weakness of these threats, it was only necessary to create a peripheralized federation that reflected the strength of provincial rather than national loyalties (Riker 1964: 27).

Riker proposed that the creation of India's federation was prompted by two external threats: the princely states, which in 1947 were "a collection of partially self-governing colonies," and Pakistan, which was "more warlike, better armed, and more resentful" (Riker 1964: 29). He preferred to argue that the two forms of threat mentioned earlier combined to give rise to the federation, even though he acknowledged the impact of the colonial constitutional engineering that resulted in its formation, especially *The Government of India Act* of 1935.

Riker asserted with authority that Malaysia's federation's formation satisfied his hypothesis in that the military condition—supported by China—was met by the existence of communist guerrillas, and the expansion condition—required by the need to bring the former federated states together—was also met. With absolute conviction, he stated that "a fear of Indonesian imperialism and a reluctance, on the part of Singapore, Borneo, and others to accept Malayan domination" was the driving force for this federalism (Riker 1964: 31).

Regarding the establishment of the Nigerian federation, Riker contended that Ghana's expansionist aspirations and those of its then-leader, Kwame Nkrumah, were the primary external danger that impacted the federation's formation. Riker continued, arguing that Nkrumah had such a strong sense of Pan-Africanism that "no Nigerian leader could fail to be aware of the proximity of Ghana to the Western (and depressed and minority) region of Nigeria" (1964: 31–32). According to him, "the unwillingness of Nigerian leaders to upset the bargain the British had made for them" was the primary internal challenge (Riker 1964: 31–32). Riker was arguing that the British were persuaded to allow the federation as a result of the confluence of these threats. Riker contended that the British divided the nation into three sections in anticipation of a future federation, and that the colony's three politically antagonistic and geographically dissimilar cultures served as justification for the division, which eventually resulted in a union. It is evident that Riker included the importance of Nigeria's cultural variety in his research. It is intriguing, nevertheless, that he nonetheless claimed that Ghana's threat of instability was the reason the federation was formed.

However, academics familiar with Nigeria's political history have discounted the theory that the Nigerian federation was required by an external danger from Ghana. For example, Anthony Birch had pointed out that the federal model in Nigeria was established while Nkrumah was still studying in the United States, and that the Western Region of Nigeria—which Riker had called "depressed"—was really the most successful of the three Nigerian Regions. He went on to say that most Nigerian politicians also adhered to Pan-Africanism, albeit to differing degrees (Birch 1966: 23; Eleazu 1977: 18; Aina 1986).

Riker may be correct when he says that regions may unite into a single federal state out of fear of invasion by an outside force, but he cannot support this claim with regard to Nigeria. The argument presents a picture of someone who either misread or misconstrued Nigerian

political history, and the danger criterion is baseless. Nigeria's federal union may have been sparked by some concerns, but these threats originated inside, from the country's many regions, not outside, as Riker claims. The French neighboring nations actually did not present Nigeria with any kind of danger. The colonial authority's decision to advance the concept of federalism was supported by the pervasive fear and distrust of dominance among the many ethnic groups (Awa 1976: 19; Birch 1966: 25; Elaigwu 2017: 22). Therefore, Riker's hypothesis ought to have taken into account an internal danger from potential federation allies. He did, after all, admit that there were three "hostile cultures within the colony." This might have shielded him from the harsh accusations that his research adhered to the "quasi-scientific style of the behavioral movement," which sought to develop "tested and testable generalization" by aiming to transcend the "unique" historical and cultural context of each federal experience (Davis 1978: 125–126). Decades after the formation of the Nigerian federation, each ethnic group continues to live in fear of being marginalized.

Ramesh Dikshit (1975), who had researched the federations of West Germany and Austria, similarly asserted that the establishment of federations did not need Riker's so-called required prerequisites. Further, Dikshit contended that Riker was not the first academic to highlight the significance of a military situation, an external danger, or an expansion requirement. He contended that academics like William Maddox, H. R. G. Greaves, and K. C. Wheare had already expressed this viewpoint (1975: 223). In fact, Maddox (1941: 1122) had previously noted that fear, a calculated expectation of advantage, and a reaction to a unifying ideal or myth are some of the reasons behind the formation of federations; however, the most significant of these political or psychological forces is fear, which can arise from direct attempts at intimidation or from a persistent and deep feeling of insecurity.

Davis (1978) is another opponent of Riker's theory of federal formation. Davis argues that the main reason unions are created is to advance the welfare of its members. Security thus emerges as the primary driver behind the decision to create a federal union. Therefore, according to Davis (1978: 133), acknowledging the security motivation in the creation of a federal union is not novel since "every writer would note the presence of this factor in the list of motives for federal union." King (1982: 35–36) is another critic of Riker's theory of federal formation. King noted that it is evident that every state faces some risk of internal conflict and external war, and that there are three main sources of risk: internal threats to a state, external threats to a state, and external threats to allied states. Put otherwise, a state may create a union in response to a threat from within, just as a state may form a federation in response to a threat from another. King asserts that the federations of Nigeria, Switzerland, and the United States all seem to have faced an internal challenge. King's main contention is that, since the formation of a federation is based on apprehension about external forces, then any kind of anxiety must serve as justification for a federal union; hence, generalizing based on Riker's "threat" criteria becomes challenging.

Riker's idea, however, is receiving less criticism from certain academics. David McKay is a well-known supporter of Riker who acknowledged that Riker's exclusion of the social and

economic aspects is excessively limiting given their equal significance to the federal structure. However, McKay continued, arguing that Riker's thesis could not only be wrong on the grounds because, as detractors have asserted, all nations confront threats, either real or hypothetical. According to McKay (2014: 170), external threats can therefore result in annexation, treaties, war, and/or federation, particularly if certain unique circumstances are satisfied. The specific arrangements that are reached will depend on the severity of the danger.

It is vital to remember that Riker's *Federalism* (1964) offers a pivotal point for understanding the history and operation of federalism. Up until that point, the majority of techniques in the discipline had been inductive and apolitical (Filippov 2015). Federalism would come to be seen as the institutional correlate of certain social characteristics, whether they be ideational, historical, or cultural. Building upon a unique analytical innovation, Riker's breakthrough states that the "establishment of a federal government must be a rational bargain among politicians" (Riker 1975: 116). Actors who possess (1) "a desire [..] to expand their territorial control by peaceful means, usually either to meet an external military or diplomatic threat or to prepare for military or diplomatic aggrandizement" and (2) "a willingness [..] to give up independence for the sake of the union either because they desire protection from an external threat or because they desire to participate in the potential aggression of the federation" are among those who approach such a bargain (1975: 114).

What sets off these agreements, decides who wins and who loses, and, consequently, what maintains the stability of the particular institutional solution that is finally chosen are the crucial questions. Three categories of (non-exclusive) processes stand out as directly addressing these issues: endogenous institutional bargains, internal trade-offs, and foreign pressures. As in Riker's own writings, the most potent kind of outside pressure is a military or diplomatic threat (Lemco 1991). Smaller groups are compelled to work together as a shared threat forces them to pool resources. However, empirical studies (Panizza 1999; Stepan 1999, 2011; Ziblatt 2016) indicate that most real federation building processes are not explained by external military threats. Economic pressures, such as significant economic externalities among the federation's members (Casella and Frey 1992; Casella and Weingast 1995), are becoming a more significant source of demand for greater levels of political integration in addition to military or geopolitical factors.

Although cross-unit externalities have a significant impact on integration demands, political actors still need to weigh their private distributive concerns against the anticipated efficiency advantages of the federation. This leads to a second set of processes related to tradeoffs in the future resource distribution within the growing federation (Alesina and Spolaore 2013; Bolton and Roland 1997; Beramendi 2012; Wibbels 2015a; Diaz-Cayeros 2017). According to this line of research, fundamental distributive trade-offs that threaten the viability of the union are fostered by excessive differences among the constituent members' wealth, dominant economic activity (production versus extraction), and income distribution. The existing delegation of authority may come back to haunt members in future disputes over

power or the allocation of assets. The trade-offs are in terms of net contributions to the common pool as well as political autonomy.

The fundamental issue is that any constitutional compact is unfinished and susceptible to opportunistic conduct (Bednar 2019; De Figueiredo and Weingast 2015). Closely examining this issue, Rector (2019) contends that commitment issues cause states to disagree on cooperative solutions that might be advantageous to both parties: "Cooperation is risky because it can lead states to invest in assets that are valuable only as long as cooperation lasts" (2019: 31). In these situations, federalism arises as an institutional solution. One state's standing weakens by virtue of its own investments to the degree that it makes more investments in the partnership than the others. Extreme fear of overexposure discourages collaboration.

According to Rector's idea, a consensus, trust, and loyalty-based agreement does not lead to federalism. Conversely, the fundamental force behind federalism is mistrust between states: according to 2019: 61, "federations form when states benefit from cooperation but cooperation requires unequal levels of relationship specific investments." Put differently, federalism is a collaborative solution that arises from mistrust. Federalism appears as a source of "contrived symmetry," a means of resolving the commitment issue among unequal partners in the context of possible benefits for all parties. A few specific characteristics of the federation's power structure make it simpler to handle this kind of symmetry: Party systems that are integrated keep an eye out for local elites who could break past agreements (Filippov, Ordeshook, and Shvetsova 2014; Diaz-Cayeros 2017). In addition, a number of complementing institutions, including the judiciary and constitutional protections (Bednar 2019, 2013; Bednar et al. 2011), work in tandem with the party system to ward off various types of opportunism. These elements have a special significance in the analysis of the political and economic effects of federalism.

Alfred Stepan entered the scholarly discourse on federal formation, although he focused on the processes of federal development rather than the causes of federations. First of all, he chastised Riker for his singular concentration on the American Federation—the world's oldest and most prosperous federation. Second, he condensed the reasoning in his frequently quoted typology, which clarifies the three main processes by which federations form: coming together, holding together, and putting together (Stepan 1999). The United States, Australia, and Switzerland are referred to be "coming together" federations. The reason for this is that formerly sovereign groups combine their sovereignties while keeping their unique identities (Stepan 1999: 21). On the other hand, a federation that is capable of "holding together" is created when an already-existing unitary state undergoes a transformation that is often characterized by "historical and political logic" (1999: 21). Nigeria and India represent a federation that is "holding together." This is because, prior to becoming federations, both were unitary nations. Furthermore, as the component entities were not sovereign in the same sense as the unified American states, none of them had the ability to engage in negotiations with other sovereign governments. Last but not least, a federation that includes using force

to unite once separate nations is referred to as "putting together" (1999: 23). One instance was the former Soviet Union. Before the 11th Red Army conquered Georgia, Azerbaijan, and Armenia, Stepan claimed that these nations were sovereign states. It is noteworthy that in the instance of a federation that is being "put together," there is clear evidence of force being used.

Particularly when one takes into account the procedures involved in the formation of a federation like Nigeria, Stepan's theoretical framework is thought-provoking. Where to put a nation like Russia, which was a member of the USSR but became a federation in 1993 after the Soviet Union fell apart, is not so simple. Neither was the modern Russian federation established by force, nor was it a unitary state at first. Moreover, one may argue that Stepan is reiterating Maddox's arguments, who had previously said that a federation could arise from a centripetal force—the assembly of its constituent components into a new entity—or a centrifugal force—the dissolution of a unitary system of government (Maddox 1941: 1121). The new federal models that evolved in the years following the Cold War are also worthy of discussion. This latter category's federations are usually international in nature and were prompted by outside forces to form. International actors have supported the federal notion for countries confronting internal conflicts between territorially based factions as part of state-building programs. Because of the whims of the global community, these governments have been referred to be "forced together" or "imposed" federations (Burgess 2012: 304; Keil 2013; Shakir 2017). Federalism was used as a conflict-resolution strategy in each of them. The existence of variety in terms of religion and ethnicity cannot be disregarded in the computation to establish a union, even though the states are the result of post-conflict state-building processes. Here, Ethiopia, Iraq, and Bosnia and Herzegovina (BiH) stand out. The establishment of these federations shall be reviewed briefly, starting with Ethiopia.

Contemporary Ethiopia, home to more than 80 distinct ethnic groups and a population of around 90 million, is the second biggest country in Africa. Around 90 distinct languages are spoken throughout the nation. Before the civil war, which lasted for seventeen years, ended in 1991, Ethiopia was known for severe ethnic conflicts. In addition, this resulted in the overthrow of the Dergue military administration at the time and the emergence of the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF). This political organization is made up of many opposition organizations with different ethnic backgrounds that wanted a political structure that would ensure that Ethiopian society's natural diversity would be accommodated. A federal solution was finally decided upon in 1995 following a series of discussions that were mostly supervised by the United States. In order to achieve ethnic and regional autonomy and preserve the state of Ethiopia as a political entity, the emerging federation was structured according to ethnically based component parts (Habtu 2015: 313; Keller 2012: 21). It must be acknowledged that, despite the fact that outside forces had a role in the federation's formation, the federal state also conforms to Stepan's description of a "holding together" federation because it was the result of elite compromise meant to lessen ethnic violence.

Another international federation that appears to meet the criteria for being "forced together" or "imposed" is Bosnia and Herzegovina (BiH). Similar to the Ethiopian federation, Bosnia and Herzegovina (BiH) emerged as a federation in 1995 following a civil war between Bosnian Serbs, Bosnian Croatians, and Bosniaks, or Muslims. That year's Dayton Peace Agreement established the framework for the new federal state's rebuilding. The international community, which included the United Nations (UN), the North Atlantic Treaty Organization (NATO), the European Union (EU), and the Organization for Security and Cooperation in Europe (OSCE), imposed the federal solution rather than the former warring parties coming to a voluntary agreement (Burgess 2012: 299–305; Keil 2013; Woelk 2014: 177–198). As per Keil (2013: 4), Bosnia and Herzegovina became the first state to encounter a novel form of federalism known as "imposed federalism," along with a novel concept of a federal state known as the "internationally administered federation," as a result of the international community's intervention to help resolve the conflict that had devastated the country. However, we may as well refer to the federation as one that is "holding together" because it was established as a solution to ethnic strife.

The Iraqi federation, which likewise arose as a post-conflict settlement, is comparable to BiH. Rather than an actual international community structure, the federation was the result of a regime transition led by the United States and the United Kingdom in 2003 (Shakir 2017). Nevertheless, it is impossible to overestimate the contribution of the global community to the federalization process. Iraq may be seen as a "holding together" federation, much like Ethiopia and Bosnia and Herzegovina, for the simple reason that the goal was to create a state that could keep the many religious groups in the nation united.

Approaches to the Study of Federalism

Federalism must be examined within a theoretical framework, just like any other topic of study. In fact, "federalism must be viewed through conceptual lenses which are sensitized to different political cultures," as stated by Burgess (1993: 8). By using a method to analyze how a certain federal system operates, one might get insight into how that system functions. Given that federalism lacks a conventional definition, it follows that there is no "accepted theory" or standard explanation for the idea (Duchacek 1970: 189). Furthermore, "there is as yet no fully-fledged theory of federalism," according to Burgess (2016: 3). Nonetheless, a number of methods have been established to examine the nature and operations of a particular federal state. The institutional or constitutional approach, the sociological approach, the political approach, and the process or developmental approach are the most often used opposing approaches. The political economy approach, a different analytical framework, will also be examined. A summary of these approaches is given below.

Institutional or Constitutional Approach

The legal framework of a state, that is, its organization and powers, and the division of those powers among the federation's levels of government, are the main subjects of the constitutional approach. The principal proponent of this approach, K. C. Wheare, emphasized the legal relations, or the constitutional division of powers between the general

and the component governments, and the importance that federal constitutions play in institutional architecture. As was already said, Wheare defined federalism in terms of the distribution of powers enshrined in the Constitution and constitutional law.

However, other scholars have contended that his interpretation of federalism is "highly legalistic," ignoring certain sociological and political factors that are essential to any federal government's operation (see Riker 1964). In instance, Birch (1966: 16) has claimed that Wheare's method cannot be applied effectively as a framework of study in many of the new federations, such as Nigeria, since upon closer inspection, some of these states do not even adhere to Wheare's model of federalism. Furthermore, according to Dikshit (1975: 12), "a purely legal approach to federalism has not sufficed" since federalism addresses a wide range of issues beyond just the law. It is also possible to criticize Wheare's approach for failing to give adequate consideration to the economic factors that influence society.

Wheare may have anticipated this outpouring of criticism when he warned that analyzing the mechanics of federalism in each particular federation may need more than a cursory look at its constitution. Watts (1966: 14), perhaps defending Wheare, pointed out that the former was writing during a period when political studies focused more on the analysis of legal and constitutional relationships. That is, during this period, federalism researchers primarily focused on the legal structure that governed the federal and local administrations. Still, Watts believed that "inordinate legalism" or "excessive legalism" only told part of the tale and that a legal analysis of constitutions was insufficient to understand how federal systems function. Similarly, a federal system is "legal in essence," and "the practice is largely administrative", according to Macmahon (1972: 3).

It is crucial to emphasize that these critiques are insufficient to make the method meaningless. The method has made a significant contribution to our theoretical and empirical knowledge of federalism by emphasizing the need for a written constitution that outlines the principles governing a federal political system in a federation.

Sociological Approach

William S. Livingston, the principal proponent of the sociological approach, was perhaps the first to describe federalism in terms of sociology. Livingston argued in opposition to Wheare's constitutional approach that federalism is a social construct rather than a product of constitutions and:

> The reasons that have rendered the external forms of federalism necessary—economic, social, political, and cultural—are what should be looked for when determining the basic essence of federalism, not the subtleties of legal and constitutional language. Federalism is fundamentally a social organization, not an institutional or constitutional one (Livingston 1952: 83–84; 1956: 1–2).

The core of federalism is found in societal variety, or the social cleavages that are a part of society and their political relevance, rather than in the formal separation of powers, as stated in the description above. According to Livingston, a federation is a political system based on the accommodation of diversities that are classified according to area. Therefore, it is

evident that Livingston prioritizes society over the state, bringing federalism into line with the political sociology tradition. The study of political sociology focuses on how society influences the state. The important takeaway from this is that, while examining a given federal system, one cannot overlook the interaction between societal variety and federalism. There was also opposition to the notion of federalism as a social phenomenon. For example, Birch (1966: 16–18) contended that Livingston's analysis has the same institutional foundation as Wheare's, thereby preventing him from creating a viable alternative method for studying federalism. Watts (1966: 15), another opponent of this approach, contended that the study of federalism involves an interaction of the written constitutions, government practices, and social underpinnings.

Sawer (1969) was another opponent of the sociological approach, calling it erroneous to conceptualize federalism from a sociological standpoint. Sawer argues that federalism is a constitutional political structure that is different from sociological views because political leaders and legal experts must work together to make the decisions and compromises necessary for it to function (1969: 137). The strategy may also face criticism on the grounds that, while federalism may provide sufficient representation of the many groups that comprise the federation, any political system's ability to endure goes beyond the question of representation.

Notwithstanding these objections, the sociological approach might prove valuable in examining federations like Ethiopia, India, and Nigeria, where the acceptance of a federal form of governance is contingent upon the resolution of the diversity issue. The governing system's ability to function depends on this crucial problem.

Political Approach

William H. Riker was a well-known opponent of the constitutional and sociological approaches. In his 1964 book Federalism: Origin, Operation, and Significance, Riker made the argument that federalism should be examined through a political lens. According to Riker, federalism is "a bargain between prospective national leaders and officials of constituent governments" for specific reasons, hence the existence or preservation of a federation does not depend on the separation of governmental powers as previously proposed by Wheare (Riker 1964: 11). Thus, the creation and functioning of a particular federation are determined by the federal agreement, which guarantees that both parties to a union receive certain benefits from the union.

A primary critique leveled against Riker's political approach is its narrow focus on federations that emerged from several sources, such as Nigeria and India. Furthermore, the approach ignores the socioeconomic factors that form federal systems or come together to form federations. The approach may not fully convey the tale of a federation as it places an undue emphasis on the political components of federalism.

Process or Developmental Approach

Carl J. Friedrich (1968) described federalism as a process as opposed to a fixed form of government, which may be related to this strategy. According to Friedrich, federalism is a

method for uniting disparate communities while preserving their own identities. This approach to studying federalism allows scholars to better comprehend the intricate dynamics of a state by concentrating on the centripetal and centrifugal factors that lead to the formation of a particular federal state. The primary critique of this approach is that it primarily concentrates on the federalizing process without providing any justification for when the factors Friedrich outlined may lead to a federation or how they support a federation's functioning.

The Political Economy Approach

All in all, the constitutional approach of Wheare is overly legalistic, primarily emphasizing the constitutional separation of powers within a federal state, whereas Livingston's sociological approach overemphasizes social variety. By concentrating just on the political circumstances required for the establishment and upkeep of a federation, Riker's political approach is also overly limited, whereas Friedrich's process approach solely addresses the federalizing process. Beyond these drawbacks, the primary fault of these conventionally prevalent approaches might also be considered their little or nonexistent attention to a federation's economic dynamics.

However, none of the approaches can be written off as wholly unimportant; any one of them, or a mix of them, might be used to examine any given federation. In actuality, they have given us several avenues to pursue to address questions about federalism. For instance, some academics have chosen to analyze the dynamics of Nigerian federalism using a sociological lens. What they do is look at how the multifarious differences have affected the multiethnic nation's federalism practices. Some use a constitutional approach, emphasizing the legal separation of powers, or intergovernmental relations, as outlined in the nation's constitution. Adopters of the sociological approach have concluded that the core of the system's issue is the nation's federal system's incapacity to control social interactions. Comparably, proponents of the constitutional approach contend that the Nigerian state's problems stem from the constitution, which they say is ill-suited to overseeing intergovernmental relations. Considering the aforementioned constraints and the characteristics of the factors that led to the formation of some federations, it is valuable to venture beyond traditional approaches to examine the workings of their federal structures. Since the old approaches are still relevant, this paper examines an alternative analytical framework that places greater emphasis on the political and economic factors affecting the federations. As seen above, federalism encompasses not only the political economy of the federation but also the constitutional distribution of powers, the nature of political institutions, and the accommodation of diversity within the federation. It is thus anticipated that studying the relationship between politics and economics and how it affects both the federation and its citizens would improve our comprehension of how federalism is implemented in such a federation. What then is political economy?

In its traditional guise, political economy was the study of how society's leaders obtained and allocated resources to each member. Political economy is a field that focuses on two

goals: first, to provide "a plentiful revenue or subsistence for the people," or to enable them to provide such revenue or subsistence for themselves; and second, to supply the state or commonwealth with a revenue sufficient for the public services (Smith 1776: 11, quoted in Eatwell et al. 1987: 905). This is one of the founding fathers of classical political economy, Adam Smith, who defined political economy in his *Wealth of Nations*. Therefore, the growth and development of an economic system, as well as the political and economic factors that supported or hindered this growth and development, their interactions, and the ensuing effects of this process on the various social groups within the system, were all of interest to classical political economy (Aina 1986: 2). Political economy, as used in current use, is the study of how politics and economics interact. It focuses on the relationship between political and economic forces in determining political and economic results. The functioning of a nation's government is typically explained by the dynamic character of that nation's political economy.

In general, the political economy approach advances knowledge of how a society's production and distribution of resources are impacted by the interplay between its political and economic systems. It also aids in explaining how this interaction affects the individuals. Additionally, it looks at how the state's political institutions and procedures relate to how economic resources are distributed, or, in Burgess' words, "the extent to which economic policy influences constitutional affairs and vice versa" (2016: 144). Therefore, the interaction between a specific federation's political and economic systems forms the basis of the political economy approach to analyzing the practice of federalism.

Nigeria has a highly centralized federal government as a result of its federal structure and oil-centric economy. This has made a substantial contribution to the nation's dysfunctional federalism. Therefore, it makes sense to argue that the best way to examine how the oil-rich nation's federalism functions is in the context of its wider political economy. The "rentier" hypothesis is the political economy approach branch that is seen to be more suited to do this. Countries with a rentier political economy include Venezuela and Nigeria, for instance. This hypothesis was chosen on the grounds that alternative political economy theories would not adequately explain how Nigeria's oil wealth is distributed. For instance, the Marxist perspective emphasizes the centrality of the economic system and the antagonistic connection between the exploiter and the exploited classes, whereas the liberal political economy lays emphasis on the free market and limited governmental interference. The second school emphasizes the underlying contradictions in society and investigates it using the basic base/superstructure concept of capitalism. According to Marx, a society's economic underpinnings make up its base or substructure, and the social, political, and legal relationships that are erected on top of it make up its superstructure. The constant interactions between the base and the superstructure have a major role in shaping civilization. The Marxist viewpoint is sometimes criticized, nonetheless, for concentrating solely on the antagonistic relationships within the social class forces.

It is evident that federalism is an intricate subject, and it is appropriate to employ one or more of the previously described approaches to address important queries that touch on federalism in practice. Nonetheless, it is thought that the political economy approach was a suitable choice. As was previously said, a country's political economy plays a crucial role in how its federal system is implemented. The political and economic structures of Nigeria and other federations the world over interact, which have impacts on people's daily lives. As a result, the approach will describe how this connection impacts both the people and the federal state. Stated differently, the relationship between "the political" and "the economic" that we are researching and its impact on the federal system and its people have been highlighted. However, other approaches—particularly the sociological approach (ethnicity variable)—should not be completely ignored in favor of this. Diamond (1988: 21) correctly pointed out that "until its ethnic diversity pattern is delineated, nothing can be understood about a federal state."

Varieties of Federalism and their Impact

Federalism's Promises of Democracy and Efficiency

Initially, the study of federalism was based on a legal methodology that mostly involved descriptive reports of case studies: the examination of constitution construction. On the other hand, a vast body of comparative literature with broader analytical horizons and more realistic portrayals of institutions and politics was spurred by the groundbreaking work of Riker (1964). A more positivist perspective on how federations functioned, emphasizing the conflict between the political and economic effects of federalism and its promises, eventually replaced normative concerns about the best way to construct federal institutions (Weingast 2014; Weingast 2019).

These days, the original excitement over the democratic and efficiency promises of federalism is tempered by the accumulated empirical and theoretical studies created by the comparative literature on federalism. As previously covered, simplified models of federalism that presume dual responsibility and a distinct separation of powers across tiers of government are very different from the way federations function. Indeed, a major factor in explaining why the previous conceptions of federalism proved to be false is the contrast between the idealized structure of federalism and the intricate and multifaceted character of federations (Beramendi 2017).

Numerous institutional, political, and economic issues have been addressed by federalism on multiple occasions. Federalism has promised benefits, but the corpus of theoretical and empirical study regarding its effects has counterbalanced them with more sobering assessments of its dangers. The literature now in publication demonstrates that the true political and economic effects of federalism are multifaceted, intricate, and heavily dependent on the particular architecture of federal institutions as well as social and economic surrounding elements. Undoubtedly, the past several decades have seen a rediscovering of these intricacies in the context of a research program centered on developing a broad theory of federal performance. The key theoretical and empirical contributions of this literature will

be reviewed in the remaining portion of the section, with a focus on how far these works stray from the traditional federalist promises.

Federalism and Democratic Governance

The democratic promise is the earliest one associated with federalism. Federalism has been viewed by many as an institutional way to improve government control and accountability. This promise is based on the supposition that there are distinct distributions of vertical authority between governmental levels. However, empirical evidence indicates that in certain federations, the overlapping division of governmental authority is linked to hazy responsibility attribution (Cutler 2014, 2018; Johns 2011; León 2012; Rudolph 2013a, b). However, evidence for the United States and the European Union indicates that voters are able to distinguish between different governmental levels (Arceneaux 2016; Hobolt and Tilley 2013). Accountability may be compromised to the extent that people are unable to draw a direct connection between political activities and results due to a lack of knowledge. These warnings are not new; Alexander Hamilton already emphasized them in *The Federalist Papers* a long time ago. Evidence of a poorer correlation between economic success and support for the national incumbent in federal states has been shown by a recent strand of the research on economic voting (Anderson 2016b, 2019). The majority of the research conducted in this field to far have been case-specific, mostly because comparative cross-national data on attributions of blame are lacking. Consequently, much remains to be discovered regarding the ways in which distinct federal designs influence accountability clarity and if this influences differences in performance voting throughout federal nations.

When it is demonstrated that factors external to subnational performance determine whether subnational politicians win elections, the benefits of decentralized governance over accountability are visibly challenged. Very little is known about whether national dynamics are more or less important in various federations and what causes lead to this variance due to the dearth of comparable data in the field. Research in this field has traditionally focused on country instances, namely the United States, and it shows that national economic performance and competitive dynamics have a significant role in subnational elections. These results cast doubt on the traditional understanding of "dual accountability" in federations, which assumes that citizens will hold subnational (national) governments responsible for clearly local (national) duties. The few comparative studies in the field have used various empirical strategies to investigate the contamination between the federal and regional arenas (Schakel 2013; Rodden and Wibbels 2011); however, their empirical findings imply that in situations where subnational self-rule is more prevalent, there is less congruence between national and subnational elections.

Lastly, a rising body of research highlights how federalism promotes "peace-preserving" features by enabling the coexistence of federal shared-rule and self-rule (Elazar 1987; Riker 1964). In addition to providing "more layers of government and thus more settings for peaceful bargaining" (Bermeo 2012: 99) and safeguards against the federal government's attempts to subjugate ethnic minorities (Gurr 2000; Horowitz 1985), federalism is beneficial

for "holding the state together" (Stepan 1999). Gurr's (2000) study, *Minorities at Risk*, provides extensive data on a wide range of minority groups in both federal and unitary governments, demonstrating that federal regimes are more accommodating than unitary ones. A comprehensive comparative research conducted across federations under the direction of Amoretti and Bermeo (2014) also uncovers more evidence about the accommodating success of federalist arrangements. However, a lot of the less optimistic opinions on the curative powers of self-government originate from research that examines the destiny of federations that were part of the Eastern European communist bloc, all of which collapsed (Bunce 1999; Cornell 2012; Treisman 1997).

Federalism presents a conundrum since the very organizations, guidelines, and procedures intended to keep people apart may nevertheless fuel ongoing hostilities. Federalism has the potential to collapse on its own, according to those who hold the most hopeful perspectives. They contend that federal arrangements transfer powers and funds from the federal government to territorial subdivisions, hence enhancing the ability of nationalist leaders to organize for nationalist purposes (Roeder 2019; Snyder 2022). Above all, the processes of disintegration are more likely to flare up in situations where ethnic borders and internal federal boundaries intersect, fortifying identities and dividing political communities (Elazar 1994; Lipset 1959; Watts 2018); alternatively, in cases where regionalist parties encourage separatist identities and encourage communities to start secession movements (Brancati 2016).

Conversely, federalism is viewed in the research on ethnic conflict as both a blessing and a curse for the breakdown of states (Bakke and Wibbels 2016). Based on case study evidence, it appears that federalism's capacity to manage conflict and avert dissolution is heavily dependent on the particular layout of federal institutions (Filippov et al. 2014; Hechter 2015; Stepan 2001). Some studies, however, emphasize the significance of extra-institutional elements like economic inequality in explaining the stability of the federal government. According to Bakke and Wibbels (2016), fiscal decentralization tends to magnify cross-regional income disparities, which raises the chance of conflict in environments with high levels of interregional inequality. The expenses of supporting redistribution to poorer areas outweigh the advantages of the undivided state (military protection, economies of scale), which is why rich regions are under more pressure to secede (Alesina and Spolaore 2013; Sambanis and Milanovic 2021). Conversely, in situations when regional disparities are significant, federalism may endure solely if authority over redistribution remains decentralized (Boix, 2023). Interregional disparities have been a driving force behind federal institution reforms, as demonstrated by the Scottish and Catalan examples. This includes a reworking of fiscal tax and revenue capabilities to provide regions with more budgetary autonomy.

Federalism and the Market

Markets and democracy are the two cornerstones of the federal delusion. It is interesting to note that welfare economists and proponents of public choice theory share the belief that

federalism improves markets. The goal of an optimal resource allocation is facilitated by federalism and decentralization, according to welfare economists (Musgrave 1997; Gramlich 1973, 1987; Oates 1972, 1991, 1999; Wildasin 1991), since they guarantee a better fit between preferences, needs, and policies through informational matching and experimentation. In this theory, incumbents who seek to maximize their welfare essentially use factor mobility as a factor of preference revelation. Conversely, federalism improves markets by taming Leviathan's voracious hunger, according to public choice theorists (Brennan and Buchanan 1980; Buchanan 1995: 19–27; Inman and Rubinfield 1997: 73–105; Qian and Weingast 1997: 83–92; Weingast 1993: 286–311; 1995: 1–31; Weingast et al. 1995: 50–81). Within this context, the predatory impulses of the government are restrained by factor mobility. Federalism enables voters and markets to keep a closer eye on incumbents by enabling them to cast ballots across jurisdictional boundaries. Consequently, smaller states and lower levels of corruption allow markets to operate more effectively (Prud'homme 1995).

Over the past three decades, a plethora of comparative and empirical research has improved our understanding for academics and practitioners (Rodden 2016; Wibbels 2016). The results produced by federations and decentralized organizations differ greatly. The range of possible results is wide. Removing a subnational layer of government enhances governance in non-democratic environments by reducing corruption (Malesky et al. 2014). In order to maintain areas under the political authority of the center, autocracies also employ the advancement of local politicians (Landry 2018). Capital mobility and federalism not only fail to rein in governments and encourage innovation in democratic but corrupted and clientelistic countries, they also worsen the situation by maintaining an equilibrium of excessive extraction and low production (Cai and Treisman 2015). Conversely, in the United States of America and Switzerland, federalism has promoted long-term economic prosperity.

The relationship between two variables—the particular architecture of federal institutions and the actual setting in which these institutions operate—determines the economic effects of federalism, without question. The organization of representation in federations; the details of the fiscal constitution; and the dimensionality of the political space and the polarization within dimensions in the federation are the three unique mechanisms that have been identified by the specialized literature as governing this interaction.

Representation

Because it establishes the distribution of power between the center and the units, representation is important. Centrifugal federations are characterized by a lack of central monitoring authority and chances for regional exploitation and free-riding on the common pool (Beramendi, 2012). In contrast, under centripetal federalism, an oppressed center has an incentive to subjugate its constituent units and demand rents for its advantageous position. Unruly, vested local interests run the risk of making federalism ineffective in centrifugal federations (Inman and Rubinfield 1997; Breton 1996; Eichengreen and Von Hagen 1996).

The fundamental goal of federalism is defeated in centripetal federations when self-rule effectively vanishes (De Figueiredo and Weingast 2015; Wibbels 2015a; Rodden 2016).

The fundamental problem is still how to minimize the incentives that local elites have to manipulate the market while maintaining their autonomy. Broadly speaking, the ideal power distribution is a complex, multifaceted issue that is influenced by several elements of political union institutional design (Bednar 2015, 2019). Based on the idea that actors will always try to extract as much rent as possible (Inman and Rubinfield 1997; Cremer and Palfrey 1999, 2000; Dixit and Londregan 1998), regional interests' representation in the national arena is essential to the operation of federations (Wibbels 2015a, Rodden 2016, Beramendi 2012).

In the end, representation is a reflection of how formal institutions and the party system's structure interact. Since national policies are created, the capacity of regions to use their formal participation in national institutions to impede or influence changes explains in part why there exist market rules, fiscal discipline, and wealth redistribution. The kind and extent of reforms, inasmuch as upper chambers are significant in shaping economic results, are a reflection of the negotiating strength of regional coalitions supporting and opposing certain policy changes. A severely unequally distributed senate empowers certain areas to reject legislation and expands their capacity to appropriate resources. However, the way the party structure is set up might work against this leverage.

Party systems are important because they assist resolve issues of temporal inconsistency among elites at all levels of government and because they address the career interests of politicians. Uncertainty over prior commitments made by the state or federal governments is brought about by weak party systems. Robust party organizations possess the organizational capacity to enforce penalties on local politicians who breach national accords, so diminishing their motivation to act recklessly, be it in terms of finances or politics. Stated differently, robust, cohesive party systems provide robust electoral externalities and link the destinies of political elites at all governmental levels, strengthening the federal compact in the process (Rodden and Wibbels 2012, 2011).

Fiscal Constitution

Apart from the structure of representation, another aspect that moderates the economic results of federations is the extent of fiscal responsibility and independence bestowed by the constitution. The degree to which subnational entities truly absorb the repercussions of their economic conduct is referred to as fiscal accountability. Subnational governments that possess fiscal autonomy are those that depend more on their income and less on federal payments. However, the opposite is not always true. High degrees of fiscal responsibility are not necessarily a prerequisite for fiscal autonomy. That relies on how severe the financial restriction is.

Due to lax budgetary restrictions, fiscally independent areas take on significant debt, which transfers the consequences of their reckless spending to other federation members. Consequently, macroeconomic and distributive results tend to deteriorate as subnational

units become more transfer reliant if the central government absolves subnational ones of their financial commitments. Accordingly, regional transfer reliance is linked to non-cooperative ties between governmental levels and their constituents, opposition to market reforms, and an increase in the need for bailouts (Wibbels 2013; Rodden 2016). The rationale behind unfavorable economic results stems from political incentives molded by the current institutional framework.

Federalism provides the conditions for central and subnational governments to act in an uncooperative manner by creating competition amongst several policy providers. Both governmental incumbents strive to reduce the expenses required in meeting the expectations of the populace while simultaneously claiming political credit for the products and services rendered to them (Migué 1997; Volden 2014, 2015; Inman and Rubinfield 1997). Additionally, they aim to lessen the influence of unfavorable policy changes on elections. Because of this, subnational governments frequently accrue large debt, which must be repaid by the federal rescue of the entire federation. In general, federations frequently face the moral hazard issue of local authorities using federal risk-sharing programs to pass laws that raise local risks. Comparatively, central governments are able to shift the political burden of cutting back on publicly funded social welfare to regional authorities by decentralizing social services without allocating the required funding. These dynamics are facilitated and reinforced by soft budget limitations.

Fiscal autonomy, on the other hand, improves economic and social outcomes in the face of strict budgetary constraints by lowering capture through transfer dependency, encouraging experimentation, and guaranteeing a better match between local preferences and policies (Qian and Weingast 1997; Bardhan and Mookherjee 2015). Subnational entities with fiscal autonomy lower overall deficits and inflation rates while promoting steady economic growth. Increased fiscal autonomy influences how much subnational governments absorb the advantages of their economic development, which encourages subnational incumbents to foster an atmosphere that protects markets. The argument is demonstrated by Stein's (1999) study of Latin American federations, which shows that decentralization often leads to lower economic performance in situations when there is a large degree of vertical imbalance, discretionary transfers, and subnational governments have a great degree of borrowing authority. More generally, it is demonstrated that the levels of fiscal autonomy affect both the size of government and the macroeconomic impacts of spending decentralization (Rodden 2016; Rodden and Wibbels 2012).

In summary, clear divisions of fiscal authority promote responsibility and autonomy, which improves efficiency and distributive results. In contrast, political and economic opportunism thrives under complex, opaque, ambiguous, and dynamic intergovernmental fiscal systems (León 2010).

Dimensionality

Another distinguishing feature in the federation is the dimensionality of the political arena and the polarization within dimensions. Federalisms are two-dimensional political

landscapes by definition, with the preferences of the people being weighed against those of the territory. Furthermore, as was said, the representational system represents the equilibrium. Beyond this fundamental reality, however, federations differ in how complicated their political environments are, and this variation plays a significant mediating role in the viability of durable, self-enforcing agreements. The reasoning is simple: there is less space for stable political arrangements and/or the kinds of fiscal and representative arrangements that support efficient and equitable market outcomes as dimensionality rises and the intensity of a group's preferences over a given issue makes them less flexible in negotiations. Federalism is ultimately not a workable institutional option if the level of preference complexity and variety reaches a certain point, and any attempt to enforce it may actually backfire.

Within federations, preference heterogeneity is fueled by a variety of factors. One that is comparatively well known is the extent to which regional economies differ in terms of asset specialization. As the degree of factor mobility declines with the degree of regional economic specialization, asset specificity limits the efficacy of the restraints normally associated with labor and capital mobility (Boix 2023; Beramendi 2012). In an asset-specific, specialized economy, skills and human capital are linked to the local labor market. Furthermore, capital is more sensitive to how well its production demands align with the features of the labor force and educational system than it is to tax benefits. Because of this, incumbents in units with ample resources could be more restricted by the likelihood of cross-class regional coalitions forming than by the possible externalities of actions made in other jurisdictions. Furthermore, the incentives of the less equipped units are changed by the variability among the units. They give up on any attempt to advance economic efficiency through policy since capital is likely to move from impoverished to wealthy areas. Thus, capital mobility encourages rather than restricts the capacity of occupants of impoverished units to pursue inefficient public policies (Cai and Treisman 2015). This adds an additional layer of complexity that affects other facets of federation structure and its financial consequences.

Differences in national identification, religion, or ethnicity among federation members are a second, more significant source of preference heterogeneity. Federalism, as we have previously stated, becomes a source of artificial symmetry among unequal partners (Rector 2019). It becomes more challenging to maintain this kind of symmetry when political unit borders are determined by race or religion. The degree of variety in choices about fundamental political and fiscal arrangements decreases the space for stable arrangements that promote efficient economic results. This is because preferences vary between regions in terms of national identity, religion, and ethnicity. For strongly identified areas like the Basque Country or Quebec, asymmetric agreements are sometimes the only practical means of averting war. But asymmetric federalism might not be enough to quell centrifugal forces; this might mostly depend on the presence of regional and identity-based parties that control the representation of territorial interests (Brancati 2014).

Until regional political entrepreneurs are successful in building identities and/or igniting ethnic or identity problems in the electoral sphere, interregional economic disparities may stay dormant. Federal structures have a "double edge" when it comes to carrying out stable political and economic agreements because the decentralization of political power and resources to territorial subunits may strengthen regionalists' capacity to reinforce those identities (Brancati 2016; Erk and Anderson 2019).

Concluding Remarks: Federalism, Distribution, and Stability

Following World War II, nation-building strategies such as federalism gained traction, particularly in the British Commonwealth. In several of its former colonies, such as Canada, India, and Nigeria, the British imperial powers championed the federal concept as the most practical choice for a nation with a diverse population. Similar to this, the federal system saw a rise in popularity in the post-Cold War era as it was increasingly seen as a means of managing conflicts in nations devastated by war, as seen by the experiences of Ethiopia (1995), Bosnia and Herzegovina (BiH) (1995), and Iraq (2003). This paper has shown that various countries choose federalism for different reasons and in reaction to diverse conditions, notwithstanding its multifaceted benefit. Large, populous nations like Australia, India, Nigeria, and the United States of America find the system especially appealing. As a way of attaining unification, it is particularly alluring to nations with large levels of social variety, such as Ethiopia, India, and Nigeria.

Given the vast institutional heterogeneity associated with federal reality, precisely defining the fundamental characteristics of the federal model has become a challenging issue. But all federal nations have the same precarious equilibrium between unity and autonomy, which in turn creates a basic conflict between two evils: an overly powerful center that "overawes" subnational units and the possibility for misuse by shrewd subnational elites. It is evident that federalism is a complex topic, and it is appropriate to employ one or more of the previously described strategies to address important queries that touch on the application of federalism.

Viewing the viewpoints that have been articulated so far as mutually reinforcing has proven to be more beneficial. We have been reminded, after all, that a territory's social and economic circumstances do not automatically engender a yearning for unification. Since federations are built on compromise and negotiation, which call for strong leadership, a great deal depends on political leadership. The country's founding fathers, Washington, Hamilton, Jay, and Madison, demonstrated exceptional leadership and their determination to bring the American colonies together, which made the American federation conceivable despite the social and economic conditions that existed at the time (Wheare 1963: 31). Similar to this, the Indian Federation was formed in large part due to the influence and charismatic leadership of Nehru and Gandhi (Watts 1966: 61). While Nigeria lacked comparable national political figures, its regional leaders greatly influenced their supporters by advancing the federal notion through the platforms of their ethno-regional political parties. After extensive

talks, the nation's founding fathers put aside their disagreements in order to reach a federal settlement because they were determined to keep the country united.

A better understanding of the dynamic aspects of federalism and their implications for the question of institutional stability requires focusing on other mechanisms, namely the particular design of federal institutions and the context in which these institutions operate. The constitutional contract is insufficient to enforce the stability of federal institutions. The significance of the particular design of representation and fiscal arrangements, and their interaction with contextual factors, cannot be overstated when attempting to understand the self-enforcing dynamics of federal institutions. This is exemplified by the secessionist pressures in Catalonia and the European Union's inability to handle the sovereign debt crisis. These two instances highlight the institutional form of federalism, which develops naturally as a result of its own distributional consequences (Beramendi 2012). Securing an institutional design that allows for everyone to participate in the political process and, to the greatest extent feasible, anticipates future distributive battles is essential to its effectiveness as an institutional engine for stability.

The European Union's concept of a monetary union without fiscal integration, which perpetuated geographical imbalances, is explained by centrifugal representation. The sovereign debt crisis' uneven effects on its member states led to a territorial distributive dispute and a rise in the diversity of interests within the Economic Monetary Union over the structure of its distributive mechanisms. The growing divergence in member states' stances about possible distributive institution change (more or less Europe?) has sparked conjectures regarding the possible disintegration of the Eurozone. Nonetheless, it appears that member state choices are too diverse to support further fiscal union.

The centralist architecture of redistributive policies (social security) in Spain can be explained by centripetal representation under the 1978 constitutional adjustments. Catalan elites' persistent calls for a revision of fiscal arrangements can be explained by the distributional effects of this first fiscal agreement as well as the constitutional budgetary advantages accorded to the Basque Country and Navarre. Representatives from Catalonia have argued that the degree of systemic redistribution is too great and have called for the same degrees of budgetary autonomy as those in the Basque Country and Navarre. These allegations have led to a number of federal budgetary revisions over the past several decades, which has heightened distributive dispute over resource distribution among the various regions. The existence of prominent nationalist parties at both the regional and national levels, together with the consequent centrifugal force of political competition, has been a significant contributor to the fueling of divergent preferences. The territorial organization of the Spanish state is currently under threat from the growing polarization of preferences among regions over political and fiscal federal arrangements. This is because most Catalan elites see secessionism—rather than changes to fiscal federalism—as the only workable way to resolve the conflict.

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