PUTTING FEDERALISM IN ITS PLACE

The Territorial Politics of Social Policy Revisited

Scott L. Greer, Daniel Béland, André Lecours, and Kenneth A. Dubin
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CHAPTER 1

Why Should We Care about Federalism?

In Texarkana there is an unusual building. As its name suggests, the town straddles the border between the U.S. states of Texas and Arkansas. The building stands along the border, half on each side. It is a U.S. federal government building, finished in 1933, that combines post offices and courts. The federal courts serving Texas are on the Texas side, and the federal courts serving Arkansas are on the Arkansas side. A post office, equally divided between the two states, serves both. The street splits to go around the building, with different pavement quality and parking rules on the two sides.

That one building in a little-known railroad town is a metaphor for federalism. The states constitute the environment, but the federation constitutes the states. It is a legacy of specific political moments and policy decisions that there is a shared post office, serving the American people, in a unifying federal building that reinforces juridical divides between states in its very design. Perhaps it is telling that it is said (by the town’s tourism bureau) to be the second most photographed federal building in the United States. It is of no significant architectural interest—except insofar as its location and its twinned courthouses inscribe federal politics in its stones. Letters mailed there since 1933 have been postmarked with a stamp that marks them as having been mailed in both states: “Texarkana-AR-TX” or “Texarkana, USA.”

The concrete complexity of a federal building in the American Cotton Belt belies much of what is written about federalism. Much research about the impact of federalism, or any other political or social institution, treats it as a binary variable, present or absent, and then look for its effects. Endless effort has been expended and endless ink spilled in scholarly and popular...
efforts to identify its consequences and decide whether it is desirable. They seem like obvious enough questions: What is the impact of federalism on welfare states? Does it encourage a race to the bottom or a competition to be the best? Does it fragment social forces or permit experimentation and policy innovation? Does it constrain the demos or enable local democracy? Is it federalism that explains the relatively weak and inegalitarian U.S. public welfare state or something else? Does federalism provide useful redundancy and local responsiveness in a crisis such as a pandemic, or does it lead to destructive competition and lack of coordination?

The answers are not obvious. Understanding the operation of federalism and its effects is hard (Kincaid 2019; Detterbeck and Hepburn 2018; Colino, forthcoming). This book was borne of our joint efforts to address these questions. In trying to understand the impact of federal political institutions on welfare states, through comparative study of rich federal countries,¹ we increasingly found that any question about the impact of

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¹. More specifically, this book focuses primarily on federal countries located in Australasia, North America, and Western Europe, which does not mean the lessons it draws are not applicable to federal countries located outside the Global North, such as Argentina, Brazil, India, Mexico, and South Africa. Or vice versa.
federalism requires understanding it as just one more set of political institutions, like electoral systems or bicameralism. Its meaning only makes sense in the context of other aspects of the political system. Or, as W. E. B. Du Bois (1928) put it when discussing the idea that the U.S. Civil War was about states’ rights: “People do not go to war for abstract theories of government. They fight for property and privilege.”

Like any political institution, we found, federalism matters when it is relevant to key political actors. Sometimes that is because there is a territorially concentrated interest or nation that seeks autonomy or its own region, but usually federalism simply multiplies jurisdictions where social forces fight and mobilize. In other words, we found that studying federalism as a variable with an average effect on politics was less illuminating than studying federalism as part of cases—as part of the richness and interactive complexity of politics and social policy reform in countries such as Belgium, Canada, Spain, and the United States.

The book proposes a method for understanding institutions, in this case the institutional complex of federalism. We draw on our expertise in social policy for examples. It recounts our argument for viewing federalism as an institutional setting, for viewing federalism as part of a configuration rather than as an independent variable, and therefore for focusing on the interaction of federalism with territorial identities, interests, and other political institutions in order to carefully assess its impact on social policy and the welfare state. It has, we hope, lessons for students of federalism, social policy, and territorial politics and also for those interested in the broader question of how institutions interact with each other in real politics. The Texarkana federal building is a small example of the complexity, a federal construction that both unites and divides two states, dispensing a service in a two-state post office while dividing the law between them. Federalism and the federal government constitute the meaning of the building and constrain what happens within. It is hard to separate out federalism from other institutions and the broader society and necessary to understand both its nuances and interaction with context.

Federalism, the Welfare State, and Redistribution

Our interest is in how to understand the role of political institutions in policy. The political institution we focus on is federalism; the policy area
we focus on is social policy, or the welfare state. A political system is federal if there are multiple units of general-purpose government that have constitutionally defined powers and cannot unilaterally abolish each other. This definition leaves many nuances out—and much of the study of federalism is about nuances—but it also sidesteps legalistic arguments about whether the Spanish “state of the autonomies” or other decentralized systems are federal. They are in practice, regardless of the political and legal niceties. Federal systems are therefore characterized by a great deal of “transactional” relationships between governments, in which coequals must work together without the subordination characteristic of a hierarchical model of governance (Taylor et al. 2014: 15–16). All political systems, no matter how putatively hierarchical, have some element of transactional politics, but federalism puts it at the core of politics and policy.

Throughout this book, the term “welfare state” simply refers to the aggregation of social programs as they exist in a particular country. In Titmuss’s 1968 definition (which he originally applied to social policy), this means policies that are “beneficent, redistributive, and concerned with economic as well as non-economic goals” (quoted in Alcock and Glennerster 2001). Welfare states combine insurance and redistribution, both insuring individuals against shocks such as ill health and altering the distribution of income between individuals. They include pensions; healthcare insurance; social care; income replacement, transfers, and benefits for working-age people; and, with some qualifications, education. There have been efforts to divide the welfare state from social investment on the grounds that some policies (such as pensions) are about reducing individuals’ risks while others (such as education) benefit the individual and the whole society. This distinction has shaped major works on federalism (P. E. Peterson 1995) and, arguably, the whole field of fiscal federalism (Boadway and Shah 2009; Oates 1999). As Titmuss’s definition makes clear, though, social policy is concerned with economic as well as non-economic goals. The role of many programs—both public and charitable—in social stratification, the variable relationship between program expenditures and individual payoffs, and their impact beyond income mean all of them can be understood as constituting the welfare state. Along with industrial relations, policing, war, taxes, and employment regulation, they are key ways states shape the life chances of individuals in their populations (Clasen and Siegel 2007).
What Does Federalism Do to the Welfare State? Existing Theories

Political scientists have long been interested in federalism, but much of the time their focus has been on institutions rather than their policy consequences. U.S. research on federalism, in particular, was long shaped by the need to cope with, or ignore, the extent to which “states’ rights” was code for racism (Riker 1964). Other than noting, and sometimes celebrating, territorial policy diversity, much of the work involving federalism and public policy tended to be taxonomic and focused on intergovernmental relations (Wright 1982; Wheare 1963). Other countries, notably Canada, had different traditions; Canadian approaches to federalism tended to emphasize provinces as distinctive political units, reflecting Canada’s variegated territorial politics. But before the 1970s, there were not many wealthy federations, and most of them (notably Australia, Austria, Germany, and Switzerland) were not major focuses of research even in their own countries (Colino, forthcoming, has chapters on different traditions).

Using federalism to explain the shape of welfare states is probably most theoretically advanced in the subfields of comparative politics and political sociology. There, the most powerful and common explanation for the correlation between federalism and lower social spending starts with the idea of veto points as defined by Ellen Immergut (1992). Federalism, like bicameralism, referenda, or judicial review, creates veto points that allow minority interests to weaken or block legislation that would expand the welfare state. Empirically, the general impact of veto points on the politics of social policy is well demonstrated (Ehrlich 2011; Immergut 1992; Huber and Stephens 2001; Stepan and Linz 2011). The most influential approach using this argument, that of Huber and Stephens, combines the various institutional forms of veto points into a single variable, fragmentation, and finds that it correlates with a weaker welfare state (Huber, Ragin, and Stephens 1993; Huber and Stephens 2001).

At its most basic, this argument ignores the distinction, developed by Daniel Elazar (1987), between shared rule and self-rule that Hooghe, Marks, and collaborators have made a major part of their research program (Hooghe and Marks 2016; Hooghe et al. 2016). Shared rule is the amount of power that federal units exert in the decisions of the central state. Self-rule is the amount of autonomy federal units have vis-à-vis the central state. Programmatic design will often create powers and veto players not visible in a
purely institutionalist analysis (see chap. 4, this volume), but the distinction between shared and self-rule is important to understanding policy making. It is easy to see how shared rule would create a veto point in central state policy making. It is less easy to see how self-rule would make federalism a veto point: in some federal systems, policy making in particular fields may involve federal-constituent unit agreements requiring the consent of all governments in the federation. Huber and Stephens’s qualitative explanation of their quantitative variable’s effect—their account of how federalism is part of fragmentation and bad for welfare state change—relies heavily on one case. That case is the role of the Australian Senate in obstructing social welfare legislation (Huber and Stephens 2001). The Australian Senate is not, however, a case of self- or shared rule. Rather, it is a case of bicameralism in a country that is also federal; the Australian Senate does not institutionalize state voice in federal affairs. Bicameralism, like judicial review, often comes with federalism, but it is not the same thing and can have variable effects. The United States is federal and bicameral, with a high level of self-rule for states but a low level of shared rule. States have long been little more than lobbyists and platforms for important politicians in federal politics (Jensen 2016), so it is not clear how federalism rather than bicameralism or the separation of powers accounts for federal (in)activity (Greer 2009).

The problem with analyses such as that of Huber and Stephens, which use “fragmentation” or just count veto points, lies in the reduction of multiple institutional forms into a single variable, and in particular in the handling of federalism (Greer, Elliott, and Oliver 2015; Greer 2009). It is conceptually quite easy to break down “fragmentation” into separate parts, as Gerring and Thacker (2008) do in their deeply researched case for the democratic superiority of “centripetal” regimes. Composite variables such as fragmentation are composed of other measured variables, after all.

A different approach focuses on the implications of self-rule and policy divergence. Keith Banting (2006) captures it when he says federalism’s core ethical and practical question is whether a sick baby is treated differently based on where the child’s parents live. In other words, decentralized policy divergence can produce politically (or morally) intolerable divergence that demands either central provision or mechanisms such as framework laws and central grants to limit divergence. Here, the empirical question is about the effects of divergence on policy and outcomes. That decentralization does produce divergence in key decisions such as funding levels is both logical (Greer 2006) and empirically founded (Kleider 2015). Some
newer work has also put forth and debated evidence that decentralization can lead to more equal outcomes for both availability and quality of services since it gives politicians more responsibility for and incentive to run adequate welfare states relative to centralization (Costa-Font and Rico 2006; Costa-Font and Gil 2009; Costa-Font and Turati 2018; Dupuy and Le Galés 2006; Wallner 2014). Against that perspective, other work, in particular work on the United States, highlights the extent to which federalism permits local politicians to make and implement highly problematic policy decisions, in social policy as well as other areas (Bruch, Meyers, and Gornick 2018; du Plessis, Milton, and Barr 2019; Gibson 2013; Grumbach 2022; Michener 2018; Miller 2008). Many key U.S. policies, from women’s right to vote to unemployment insurance to mandatory seat belts, started out in the states and slowly stepped onto the national agenda, but it is not easy to say whether that is a stirring story of bottom-up learning and innovation or a story of institutions that entrenched elites and blocked popular policies for a long time.

There is, finally, a separate political science school, more grounded in comparative historical analysis, that draws our attention to variables other than the institutions of federalism (e.g., Erk and Koning 2009). This approach points out that federalism often exists for a reason—that a country is federal because of some basic unmanageability otherwise. The counterfactual of a centralized Belgium, Canada, or United States is hard to imagine, and the brief, pre-confederation Canadian experience of unified government for what are now the provinces of Ontario and Quebec went very badly\(^2\) (Stepan 2001). Spain was centralized under Franco, but the country’s return to democracy would have been inconceivable without decentralization. It stands to reason that a political system whose existence is premised on division might be less likely to promote the solidarity or redistribution that generally characterize welfare states.

Woven through the political science literature, just as they are woven

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2. Liam Anderson makes the case that where “ethnofederalism” failed no other institutional arrangement could have held the country together better (2016). The implication of such studies is that federalism, whatever independent effect it might have, is also an expression and vehicle of other basic facts about the country, such as the Belgian, Canadian, and Spanish ethnolinguistic divides, or the diversity and legacy of slavery in the United States. Faced with unitary governance that linked their fates together in a stronger welfare state, the citizens or elites of those countries might well have opted to break up the country, hence Stepan’s concept of the “staying together” federation.
through politics, are political parties. The status of political parties, party systems, and partisan behavior is always difficult to gauge theoretically or a priori. On the one hand, many decisions at all levels are made by partisan politicians in the context of party politics. That makes parties a necessary part of any empirical study of political reality. There are also, for example, clear arguments that the structure of parties and party systems affects the way interests are aggregated. In particular, literature on the United Kingdom (Hough and Jeffery 2006), Canada (Carty 2015; Meisel 1992), and Spain (Field 2016) all highlight the role of center-left (if we call the Canadian Liberals that) parties in brokerage across these entire countries, noting that parties to the right or left of them tend not to be willing or able to campaign in and aggregate interests from all the different parts of the country.

On the other hand, the explanatory power of political parties and party systems is often less clear. Huber and Stephens, and other theorists with roots in the power resources tradition, tend to classify left parties as part of broader working-class mobilization (2001, 2012). Studies of nationalism often look past parties for the broader ideational, social, and political foundations that made a nationalist mobilization possible—again, reducing the party to a larger and more powerful phenomenon. The appearance or absence, and variable institutionalization, of political parties reflecting key segments of society is demonstrably important, but the explanations of such outcomes often go beyond the study of parties themselves (e.g., Gibson 1996; Ziblatt 2017; Greer 2007; Lago-Penas and Lago-Penas 2011; Chhibber and Kollman 2004; Hopkin 2009; Caramani 2004).

These problems with making parties key explanatory variables are made worse insofar as we agree with Peter Mair (2013) that parties and party politicians are less and less engaged in wielding real power relative to twenty or forty years ago or note what might be a general decline in their institutionalization as organizations with members (Van Biezen, Mair, and Poguntke 2012; Hopkin and Blyth 2019). The fragmentation of many party systems is clear, as is the factionalism of ones (such as the United Kingdom and the United States) whose stability is defended by majoritarian electoral rules. It might be possible that parties and party systems are becoming less and less important as aggregators of interest and territorial guarantors of the entire country, for reasons exogenous to the party system but with general consequences for federalism and the welfare state. Throughout the book, we find that party politicians are crucial as units of
observation and proximate explanation, but the explanation for what they
do often lies elsewhere.

The most recent articulation of the basic veto points approach, which
is grounded in a concept of democracy most clearly associated with Alfred
Stepan and Juan Linz, though with kinship to the work of Gerring and
Thacker (2008). Stepan and Linz (2011) start with the demos in democ-

racy, the people, and they count the number of “electorally-generated veto
players” who can divide the demos against itself and impede the passage
of the demos’ preferred policies. The kind of checks and balances cele-
brated in much traditional U.S. political thought is, for Stepan and Linz,
a demos-constraining system. By dividing the population into territorial
units with their own leadership and incentives, federalism is highly demos
constraining. According to Stepan and Linz, the United States, home of
some of the most explicitly demos-constraining political ideas, has the
most demos-constraining institutions and therefore the most inegalitarian
public policies (2011).

Stepan and Linz are clear about what they think veto points do: con-
strain a demos and thereby reduce democracy. They separate veto points
out into different kinds (though somewhat arbitrarily, excluding veto
points that are not electorally generated, such as judicial review). Their
theory thereby creates the predictable objection that if what constitutes
the demos is not so obvious, as it is not in multinational states such as
Belgium, Spain, or the United Kingdom, then the normative force behind
their recasting of the veto points argument could not apply to all federal
countries. It also tends to focus on shared rule and has little to say about
self-rule, which for all we know might allow some jurisdictions to create
more generous social programs for their fractions of the demos than would
be possible in a more centralized state.

Obinger, Leibfried, and Castles adopted a different approach. They
backed away from the simplifying variables of macro-comparative studies
and instead embraced federalism as something complex and historically
contingent (2005b). Their volume is convincing about the importance of
complexity and contingency in explaining the differences between their
countries. That emphasis on timing, sequence, and contingency is already
an empirical advance against ahistorical deductive theories. Their main
generalizable point was that because federalism tended to come with addi-
tional veto points, welfare state development depended on the creation
of “bypass” strategies that would circumvent these veto points (Obinger, Leibfried, and Castles 2005a), an argument borne out by other countries where bypasses such as conditional grants overcame veto-plagued federal constitutions in polities as different as Brazil (Arretche 2013) and the European Union (EU) (Obinger, Leibfried, and Castles 2005a; Héritier 1999). History and individual creativity are enormously important, but here, for the most part, we are left with comparative history rather than theoretically minded comparative political analysis.

Economists also have a long-standing interest in federalism and its effects. Friedrich von Hayek wrote in the 1940s in favor of federalism on the grounds of competition and democracy: both would constrain big government (1992). Claude Tiebout formalized the idea that we can treat governments like competitive firms, trying to determine the correct balance of price (taxes) and product (services) to survive in a market of mobile taxpayers (1956). This model, like all good models, captured something important (Goodman 2019) but hinges on extreme simplifying assumptions such as perfect factor mobility and information about both taxes and services. This led some scholars to make it more complex (Oates 1999) by, for example, considering the impact of democracy or the real-world limitations on the mobility of people and capital or by using it to explain variations of government priorities at different levels (Peterson 1981, 1995; Adolph, Greer, and Massard da Fonseca 2012). It led others to research ways to diminish the model’s obvious negative implications for equity (Boadway and Shah 2009).

A number of people who work in political science have adopted this economic approach, notably William Riker (1982) and Barry Weingast (1995, 2009). Their preoccupation is with the establishment and defense of “market-promoting federalism”—in other words, in the potential of federalism to constrain the state. The basic assumption is that the best state is the one that does the least and that competition between different levels of government will produce such a state by forcing them to compete for economic growth. While competition for economic growth can mean good public administration and social investment, it can also mean a simple race to the bottom for low taxes.

The apparent association between federalism and less generous welfare

3. For von Hayek’s very distinctive understanding of federalism, see Slobodian 2018.
states that social policy researchers bemoan is celebrated by these researchers. In these theories, politicians, viewed from the perspective of 1970s public choice theory, witlessly expand expenditure, prefer debt to pay for it, and use it to reward rent seekers and parasites. The way to constrain these politicians is through a federal system that makes them compete against one another across jurisdictional levels. The resulting research agenda focuses on fine-tuning the kinds of rules that will make governments compete and on identifying the kinds of politics that prevent such market-preserving federalism.

Despite the insights in these literatures, they each have some clear limitations. The focus on fragmentation in comparative politics turns a complex set of issues into a single variable. The economists’ focus on competition is necessarily partial, as the assumptions of Tiebout’s model will never be satisfied. The focus on competition also tends to be normative, calling for real-world arrangements to approximate the model and its assumptions at what might turn out to be unacceptable costs.

The most popular approach in recent years is the broadly rational choice one used by a number of U.S.-based scholars who are interested in the incentives created by different federal rules and who are often in dialogue with economists (the foundational works are reviewed in Bednar 2011). These scholars describe federalism and fiscal federalism as complex sets of rules with payoffs that researchers can specify, a situation that makes them attractive to economists and rational choice political scientists interested in rules.

This style of analysis basically takes federal institutions as an independent variable, or more rarely as a dependent variable. Thus, for example, Rodden focuses on how federal rules can lead to excessive state and regional debt (2005), and Wibbels focuses on possibilities for neoliberal reform within given federal systems (2005). The main weakness of their approach is the focus on not just political institutions but also particular federal rules. These authors, effectively, select on their independent variable. There are advantages to studying a particular aspect of politics and making the case for its importance, but the drawback is that the case for that variable can obscure other, well-established, factors or the impact of time. A case for the importance of federalism in explaining Argentine noncompliance with the Washington Consensus (Wibbels 2005) is not the same thing as an explanation of Argentine noncompliance with the Washington Consensus, which might take into account other explanations as diverse as
partisanship, labor incorporation, industrial structure, authoritarian legacies, or nationalism.

A smaller number of scholars take federal rules as a dependent variable, a promising undertaking because it can focus on the battles of wits seen in constitutional conventions and legislation (Beramendi 2011; Diaz-Cayeros 2006). It puts rational choice theory on safer ground. These accounts’ main challenge is to show that they have accurately characterized the game that was being played by political actors. For example, Beramendi’s account of Spanish decentralization strongly emphasizes territorial economic interests rather than the much-discussed national identities of Catalans, Basques, and others, an emphasis that scholars focusing on nationalism might dispute. The secondary effect is to show the relevance of economic interests after the institutions start to affect the evolution of politics. Admitting Western states to the United States was a clever way for Republicans to gerrymander the nineteenth-century Senate (Weingast and Stewart 1992), but by now the existence of a seriously disproportionate upper house has shaped most American political development.

Finally, these accounts also tend to focus on dependent variables of interest to bond markets and international financial institutions (Peterson and Nadler 2014; Rodden 2003, 2005; Wibbels 2005). Theirs is federalism in the “world as it appears from the securities trading floor” (Woodruff 2000: 451), with governments the key actors, a few highly abstract numbers such as bond yields or credit default swaps the variables deserving attention, and a powerful and rational bond market. This perspective almost automatically endorses a clear agenda of small government and a faith in the wisdom, or at least comprehensibility, of financial markets that was hard to understand even before the 2008 global financial crisis.

It is not hard to see why there would be institutional support for writing about ways to constrain regional debt, but it also seems a rather ideologically informed process to narrow the focus of federalism down to the preoccupations of the International Monetary Fund. There is more to federalism, or for that matter political economy, than the design of fiscal rules that will constrain regional debt to the satisfaction of bond traders. The fact that there can be defection from federal arrangements by spendthrift central governments, as well as by spendthrift regions, is ignored by much of this literature, despite Bednar’s clear demonstration that federal defection is just as much of a threat to a federation as regional government defection (2009).
**Does Federalism Reduce the Generosity of Welfare States?**

Threaded throughout all these answers, from Tiebout to Riker and from Huber and Stephens to Stepan and Linz, is a general assumption that federalism can be identified as a variable with a freestanding effect and that its effect, by one of several causal routes, is to produce a less generous and egalitarian welfare state. But does it? We show three quite conventional measures of social policy in rich (Organization for Economic Cooperation and Development [OECD]) countries here, with federations marked in color. The first is redistribution, namely, the difference between people’s incomes before and after taxes and transfers (fig. 2). It measures how much the state acts to reduce inequality and increase the income of its poorer citizens. The second is the relationship between income and life expectancy (fig. 3). Social policy is one of the possible reasons for variation in what is otherwise a strong relationship between income and life expectancy. The third is simply the size of the welfare state, as measured by the percentage of GDP dedicated to social expenditure (fig. 4). It simply measures the relative size of the welfare state.

Note that there is no obvious link between being federal or decentralized and attaining a particular position in any of these three figures. Nor does federalism seem to place countries in famous country clusters, such as Esping-Andersen’s (1990) three worlds of welfare capitalism (except in the trivial sense that there are no Nordic federations), or show up as a variable in other major comparative studies of social policy (e.g., O’Connor, Orloff, and Shaver 1999). Scholars starting from an interest in broad social policy outcomes do not seem to feel much need to inquire deeply into federal political institutions.

Considering these three figures, there is obvious reason to question the main recurrent finding in comparative quantitative social policy research, which is that federal states have lower welfare expenditures (Huber and Stephens 2001; Castles 1999; Swank 2001; for a review of this debate, see Simeon 2006). This basic correlation is flawed. First, it shares the weakness of most quantitative cross-national comparisons, and especially of quantitative cross-national comparisons of federal states (Snyder 2001; Greer, Elliott, and Oliver 2015). Even with techniques such as pooled time-series analysis, the number of cases is very small, which means that there is a risk the existence of the United States or Switzerland is affecting the results unduly. Time-series data on political institutions tends to change very
slowly, so the number of additional cases gained by adding years is illusory and the effect wiped out by country-specific effects. From a statistical point of view, the stickiness of political institutions and the small number of federations mean that it is very hard to find a simple relationship between federalism and the welfare state through cross-national comparison because there is just too much autocorrelation.

Beyond the problem of getting sufficient data, there is a conceptual
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problem in using statewide statistics on welfare as a dependent variable. To study within-state variance using state-level data risks methodological nationalism (Jeffery and Wincott 2010; Chernilo 2006; Greer, Elliott, and Oliver 2015). The basic outcome variable in comparative welfare state studies, state-level expenditure, is an average or sum of regional expenditures. It is a case of what Snyder punningly calls “mean-spirited thinking” (2001). Using state-level reports for decentralized polities has some clear problems. While it makes sense to study the state-level determinants of expenditure on state-level policies, such as pensions in most cases, it makes less intuitive sense to use state-level determinants to explain what is actually an aggregation of regional and other subnational governments’ decisions.

Likewise, the cross-national quantitative models, dependent on averages across regions, sit poorly with a large qualitative literature on the policies or results of individual regions (Greer and Elliott 2019). It is easy to identify cases in which self-rule leads some regions to more generous welfare states (McEwen and Moreno 2005), which is just what we should expect when we increase the scope for divergence. In such cases, the state-wide outcome might be an unenlightening average while the real questions should be about the design of federalism—the extent and nature of self-rule, shared rule, and financing of any given system.

In other words, despite quite a lot of literature, there is no really strong reason to believe that federalism reduces the generosity of welfare states. As stands to reason, it does increase variability in generosity and priorities of welfare programs and might therefore lower statewide averages (Kleider 2015), though even the extent of variation in that area between federations...
is subject to important institutional effects. Law, party systems, the allocation of policy responsibilities, and fiscal systems are more than capable of creating or reducing differences between federations.

Despite these criticisms, the association between federalism and smaller or less egalitarian welfare states has been a recurrent preoccupation in academia and in practical politics, where many on the left have been suspicious of decentralization and many on the right have supported it in at least rhetoric. We argue that part of the problem is in the act of looking at federalism (or any particular attribute of federalism such as shared rule, competition, or soft budget constraints) as a treatment that can be expected to have relatively consistent effects on cases.

From Variables to Cases

In each of these approaches, the authors are focused on federalism as a variable: as an aspect of countries that produces a consistent effect. They repeatedly come up against four analytical obstacles. The first obstacle is that studying federalism as a phenomenon has usually meant selecting on the independent variable, a questionable research strategy in the eyes of mainstream U.S. political science (King, Keohane, and Verba 1994). The second is that finding a role for federal institutions in an explanation is not an explanation. At best, federalism can join the queue of contributing factors that explain welfare state development, such as ethnic diversity (Crepaz 1998), cultural beliefs (Alesina and Glaeser 2004), union density (Huber, Ragin, and Stephens 1993), left parties (Imbeau, Pétry, and Lamari 2001; Falkenbach, Bekker, and Greer 2019), gender politics and sexism (Orloff 1993), racism and xenophobia (Lieberman 2011), labor power constellations (O’Connor and Olsen 1998), deindustrialization (Iversen and Wren 1998), trade openness (Katzenstein 1985), electoral rules (Swank 2001; Cusack, Iversen, and Soskice 2007), elite beliefs (P. A. Hall 1989; Heclo 1974), class alliances (Luebbert, Collier, and Lipset 1991), social movements (de Swaan 1988), urbanization (Wilensky 1975), state traditions (Dyson 2010), and business sector preferences (Ferguson 1984).

The preceding paragraph entirely omits debates and different hypotheses about each variable. Despite that simplification, it nonetheless contains sixteen variables, and federal political institutions are endogenous to most if not all of them. By the most generous definition of federalism, there are
only eleven OECD federations. The number of factors interacting with federalism to explain outcomes is easily larger than the number of wealthy federal states, and probably federal states, in the world. The methodological challenges facing those who wish to model the causal impact of one institutional variable appear virtually insurmountable.

The third problem is that federalism is too complex to make a good independent variable, and it is hard to identify the meaningful impact of any specific attribute of federalism (for a basic taxonomy that shows the complexity, see Weaver 2020). Even if it is broken out from bigger aggregate variables that can obscure its intricacy, federalism is a complex variable, and set of institutions, in itself. Its effects depend on its interactions with a large array of issues ranging from debt issuance rules to judicial review as well as sociological forces such as nationalist and other territorial movements. The meaning of federalism, much history shows, can only be understood in light of its interaction with other key aspects of a country’s politics, economy, and society.

The fourth is that federalism is not a binary variable or an ideal type, as its most sophisticated analysts show (Bednar 2009). That complexity can be rendered tractable in comparative analysis (Harguindéguy, Cole, and Pasquier 2021), but many of the works discussing it here avoid recognizing the problem. The starting point for serious research on comparative federalism should be either engagement with its within-country complexity, such as the differences between different programs or governments (Feeley 2012a), or an effort to identify a more subtle basis for comparison of different federal systems.

We found considerable new evidence of the problem with the status of federalism in welfare state research while gathering the data for this book and for an earlier study (Greer and Elliott 2019). In that earlier project, a team of authors collected the best available expenditure and revenue data for all the OECD federations, broken down where possible by source of revenue, policy area, such as health or pensions, and type of expenditure. It was strikingly difficult; as Alan Trench notes, data was comparable or useful but not both. In some countries, notably social insurance model (Bismarckian) countries, it was often absent for clearly identifiable political reasons (Greer 2019). The conclusion of that book

4. These are Australia, Austria, Belgium, Canada, Germany, Italy, Mexico, Spain, Switzerland, the United Kingdom, and the United States.
was that the dominant factor in explaining expenditure patterns, including spending priorities, the consistency of spending, and its egalitarian effects, was the configuration of the state. Variation within state configuration was largely up to the decisions of the central state in financing, allocating responsibility, and legislating. Broadly, we found that decentralization of public policy, even in federal states, happens when the central government does not want to act or actively pushes away responsibilities. The striking thing about Quebec, Scotland, Catalonia, the Basque Country, and other stars of the firmament of stateless nations is just how similar their policies, budgets, and programs are to the other regional governments of Canada, the United Kingdom, and Spain. Genuinely, qualitatively different regional social policies are comparatively hard to find (universal basic income in the Basque Country, extensive day care in Quebec, and universal long-term care in Scotland are among the few, and much-lauded, cases of major policies that have no equivalent in the rest of the country). Regional politics in those places might be about cultural differences, but the agendas of regional politics are a misleading guide to the actual structure and priorities of government, it seems (Greer and Elliott 2019).

States are both constraining and constitutive forces (Feeley 2012b) for their regional governments—even when the leaders of the regional governments are opposed to the very existence of the state (Greer 2019). The rules of these political games over social policy are only comprehensible within the context of states. It is tempting to try to abstract out variables from context, but our eleven-country comparative project led us back around to explore state contexts. The most important fact about a region is what state it is in. From a starting interest in federalism, we found ourselves bringing the state back in (Evans, Rueschemeyer, and Skocpol 1985; Morgan and Orloff 2017) rather than launching the assault on methodological nationalism that we originally thought we would.

**The Limitations of a Variable-Based Approach to Political Institutions**

However diverse and subtle the works we have discussed, they repeatedly incur the problem of treating federalism as a variable that should have a consistent effect that can be estimated. In this they treat it like
other things that might have an identifiable treatment effect, whether institutional (electoral systems, presidentialism), political (cleavages, particular kinds of parties or social movements), economic, or social. Such variable-based thinking, popularized by statistics classes and research that applies the logic of large-\(N\) quantitative research to comparative research (King, Keohane, and Verba 1994), is built around the search for a variable with an average effect across cases: a positive score on a “federal” variable produces an \(x\) percent smaller/larger welfare state within a given confidence interval.

There are a number of problems with this approach. First, it sacrifices explanation to the search for causal argument. This approach works well for understanding large population effects but, as is well known, is less useful for understanding the fate of any one case within that population, since the fate of that case is determined by the configuration of variables and chance. We “know” that federal countries tend to have weaker welfare states, but even in the best of cases that does not explain Australian or Mexican social policy.

Second, in sacrificing explanation to the search for causal arguments, a variable-based approach also sacrifices the possibility of finding causal arguments through explanation. Comparative historical analysis and configurational analysis, which substantially overlap, both find broad causal propositions in arguments that explain big comparative outcomes (Mahoney and Thelen 2015). It is not clear that it is more valuable to pursue multiple variable-based studies of small, if interesting, causal mechanisms than to use broader configurational methods to understand the interaction of factors. As the discussion above showed, focusing on variables, such as “federalism,” is likely to mislead as often as it explains—or even provides a convincing and cumulating new causal finding.

Third, variable-based approaches work best when isolating the effect of a given variable from a large sample of a still larger universe of cases. As ever in comparative politics, there is only one, small, universe. When our cases are countries, the problem is mathematically worse (overdetermination, a small-\(N\) degrees of freedom problem, as well as interactions between the cases). Even insofar as there are statistical techniques for mitigating those problems, the conceptual difficulty remains that any given case is a complex set of interacting, saturated variables that are hard to usefully abstract and view as simply additive properties. Belgium,
for example, is federal because of its ethnically divided population and vice versa (Béland and Lecours 2018; Zolberg 1974). The interaction shapes the meaning of both ethnic division and federalism in Belgium (Laible 2013, 2019). This complexity can be viewed as an endogeneity problem (Rodden 2004) that makes conventional research on federalism unrewarding. We view it as an opportunity for in-depth yet theoretically informed configurational analysis.

The problem, then, is the difficulty of identifying the impact of federalism when its impact is conditional on so much else as to make a variable-based approach difficult. Our solution involves two moves. One is to treat federalism as one more kind of political institution or, better, a complex of institutions. It has no claim to different analytic treatment than electoral systems, judicial review, or consociationalism. The other is to treat it as comprehensible only through an approach that understands it in the context of all the other things that shape politics, from party systems to economics. The next section discusses the ways to implement those moves.

A Configurational Approach to an Institutional Variable

Looking for the general impact of federalism, a search for a treatment effect that can be estimated with a literal or figurative confidence interval, has analytic costs. It almost always involves narrowing the empirical focus and introducing extra normative preoccupations. We therefore understand federalism as a factor that only makes sense as part of the configuration of factors that makes up a case. Like the collaborators in the project led by Obinger, Leibfried, and Castles (2005), we view federalism as a concept that contains diverse and complex institutions that only make sense in the context of other factors. We consider it futile to abstract from the diversity and complexity of history in the study of federalism. That does not mean we should simply give up and note the diversity and complexity of history but rather that we should adopt a focus on the context of federalism, that is, the other political, economic, and social factors within which it exists. Our goal is to develop and show the merits of an approach to such complex problems in political analysis—one found far beyond the fields of federalism and social policy—as well as to shed light on the interaction of federalism and social policy.
**Configurational Comparison as a Method**

This is a configurational approach, in Charles Ragin’s terms (Ragin 2009; Rihoux 2020). It avoids the methodological and conceptual problems of viewing federalism as a variable in a regression. The solution is to stop thinking exclusively about variables and start taking the cases seriously, as complex combinations of cause and effect rather than as clusters of separable variables. Conceptually, this allows us to escape the methodological problems of variable-based comparative politics. And it allows us to cope with the apparent finding that the state is the most important factor in the study of federalism (Greer and Elliott 2019). We can use the definition of the state as an ideal type that the canonical *Bringing the State Back In* derives from the still more canonical Max Weber: “States are compulsory associations claiming control over territories and the people within them” (Skocpol 1985: 7). This is an ideal type; “stateness” is not a binary variable (Scott 2017; Thomas 2015). In our case, what we might call the constitutive power of the state is key—the extent to which its rules, institutional structure, power, and the configurations of power and interest around it constitute politics within it and even among its internal opponents. In short, we do not study federalism as a variable in the model of quantitative social science. Our attention is focused on the configurations of federal states.

Most of the approaches we discussed in the first part of this chapter tried to abstract out federalism as a variable capable of explaining politics and, more specifically, welfare state development. We started there, too, but our comparative research led us back around to viewing federalism as part of a configuration of factors that shapes welfare state politics in any given country. We came to this conclusion because every approach led us back to the importance of states, even when what states were doing was responding to the challenges of stateless nations. The methodological difficulties of treating federalism as a separate variable additional to others were insuperable: overdetermination was the mathematical problem, but the greater difficulty was the empirical reality that federalism is complex, diverse, and intertwined with everything else in society. To treat U.S. federalism without contemplating both racism and the political economy of racism, or to discuss Spanish territorial politics without understanding its stateless nations and distinctive state formation, let alone to see them both as just cases of federalism with determinate effects on, say, regional debt, is to miss the point of federalism and politics in both countries.
There have been extensive debates about the place of comparative configurational analysis in the social sciences. The debate largely focuses on the particular formalization of comparative configurational analysis found in fuzzy-set Qualitative Comparative Analysis (fsQCA), Charles Ragin’s particular method for enabling inference in comparative analysis (2009). fsQCA is grounded in Boolean algebra and fuzzy-set theory and has become an increasingly elaborated method, with debates about rules for its distinctive coding and interpretation as well as frontal attacks on its legitimacy. Proponents and opponents of fsQCA debate it in the ways that statisticians debate different techniques. That kind of debate seems unhelpful because it loses sight of the fact that statistical methods are the core of statistical analysis, whereas fsQCA is only a tool for qualitative comparison.

In our view, one that draws on David Collier’s interpretation (2014), the algorithms can be a distraction from the key insight of configurational thinking. The risk with algorithms and fsQCA is that, while they are tools to enable internal rigor and consistency in comparative analysis, compensating for the difficulty of managing the complexity of multiple cases in one researcher’s head, they are not like statistical methods designed to abstract away from cases. fsQCA software can, for example, identify clear causal pathways in randomly generated data, which would be an obvious problem for a study that relied only on it (Krogslund, Choi, and Poertner 2015). Yet, if tools such as fsQCA supplement comparative configurational analysis as needed, for purposes such as robustness checks or case selection (e.g., Willison 2021; D. K. Jones 2017), then the limitations of the algorithm are no problem for the basic configurational approach. fsQCA is a tool to support comparative qualitative research, not a replacement in the way a regression analysis might be.

It is possible to do a competent variable-based statistical regression without expertise in the substantive topic being investigated, and statistics consultants regularly do that. It is not possible to do a competent configurational analysis without knowing the case well; to rely only on an algorithmic reduction of the comparative method is to mistake a tool for a product. With the four exemplary cases that the authors know well used in this book, we do not use algorithms; as Collier notes (2014), the insight of the comparative method is independent of the helpful computer program, just as the insights of variable-based approaches are independent of their manifestation in particular software packages.
Ranking Variables in Configurations

Drawing on our broader studies and illustrated with our cases, we show the merits and operation of a configurational approach to politics—in this case, through using configurational analysis to analyze the impact of federalism on social policy. What do we learn about federalism and social policy when we look at federalism as part of the configuration of attributes that explains cases rather than a variable with an average effect across cases?

We proceed in order of importance, identifying variables that, if present, change the impact and interactions of all the variables around them. Our test for ranking variables was this: judging by our cases, what would change if the variable was altered? Thus, for example, any aspect of Canadian history without Quebec or of U.S. history without enslavement and its sequelae is so different as to be difficult to imagine. By contrast, the interaction of policy legacies and institutions are more contingent and likelier to be explained by the current or past impact of the more important variables of identity and interest. Readers can judge whether the discussions in subsequent chapters are convincing as to our approach.

We argue that, first, the link between territory and identity shapes any configuration. For instance, as discussed in the next chapter, multinational states with multiple territorially concentrated national groups are not like other states. Second, the relatively (and increasingly) unusual factor of concentrated regional economic differences can shape politics. These are the two variables that have led to civil wars and secession, and they shape the meaning and impact of other variables. They also exist in interesting configurations with each other, notably in the phenomenon seen across much of the rich world in which economic and cultural homogenization coexists with increasingly intense nationalist politics. This development, discussed in chapter 3, is quite a contrast to the long historiographical and analytic tradition that rightly focused on economic differentiation as the basis of territorial politics.

We then turn to less powerful variables, which are policy legacies and institutions. Both are the subject of huge literatures, but with quite different focuses—on the operations and politics of public policies on one side and on the evolution of institutions on the other. The problem with this distinction is that the dividing line between institutions and policies is not so clear in practice. Constitutions and constitutional law contain provisions relating to intergovernmental finance and revenue, but the design
of big social policy programs such as pensions or health-care financing also creates financial systems as deeply entrenched as many constitutional provisions. In the comparative analysis of welfare states, it is often customary to start with legal bases, but in many cases the reality of entrenched policies, and the politics they create, constitute the political realm every bit as much as formal constitutional law. For our cases, social policy programs often constitute more of a reality than the constitutional framework around them. Compare the relative ages of social policy provisions and constitutions: it is not hard to find social policies older than the current constitutional arrangements in countries as different as Brazil, Canada, France, and Germany. Changing or reinterpreting a constitution can be easier than changing the design and beneficiaries of an entrenched social program.

We therefore end with formal institutions and political parties—doing so, in part, to stress the extent to which it is risky to prioritize formal political institutions over policy legacies. Formal political institutions shape the particular games politicians play and can shape political development over time (as with Westminster governments or the United States’ malapportioned Senate), but in explaining social policies and outcomes we found that they mattered most contingently and often least.

Plan of the Book

We have started with two conceptual and methodological points. First, contra much older scholarship, and much literature on federalism that grows out of nationalism studies, federalism is a kind of institutional setting like bicameralism, common law, or a referendum process. It does not require a different form of analysis from any other institutional setting, and like other political institutions its identifiable consistent effects, divorced from context, are limited. Second, federalism is best understood configurationally. Its meaning comes from its interaction with interests and identities and politics whose territorial nature and focus are highly variable and with political institutions that can change its meaning. Federal political institutions nationalize German and Austrian politics and reduce diversity while fragmenting Canadian and Belgian politics. Having effects in different directions does not mean federalism is a problematic explanatory factor. It means, rather, that interaction with different institutions and politi-
cal forces, notably party systems, leads federalism to work in ways that are frustrating in a variable-based analysis but predictable in a configurational analysis such as the one we put forward in this concise book.

What, then, are the key configurations that matter? The book follows the order of importance as we understand it, with a hierarchy of importance of variables (Lieberman 2015). We start with the interaction of territory and identity. Not all territory is equal because different pieces of land involve different sentiments in different people. In some cases, attitudes toward territory can involve passionate nationalism. In other cases, they can mean as little as pragmatic jurisdictionalism, in which people just want to move to a more attractive place and thereby participate in an allocation of tax revenue and public goods of which they are largely unaware. As we argue in chapter 2, territorial politics takes different forms not just because of economic geography but also, and most importantly, because of the presence or absence of stateless nations. Specifically, central government responses over time to the presence of stateless nations change countries. Australia and Canada would be very similar countries but for the influence on Canada of the need to accommodate challenges from Quebec. Outside the stateless nations, most of them well known, territorial politics is less seen as an existential struggle and the regions are more institutionally as well as socially homogeneous. For example, Rocher, Fafard, and Côté (2010) found that, in Canada, only Quebeckers cared about the level of government providing specific services. Even when territorial politics does shape social policies, parties and party politics are central to their activation. Moreover, the stateless nations with the most impact on states are the ones where a political party has managed to catalyze and represent their distinct national identity. Even in stateless nations, political factors matter.

Second, in chapter 3, we show that most of the time attitudes toward territorial politics in general, and specific programmatic decisions (e.g., how to structure a welfare commitment), are driven by things exogenous to territorial political institutions, for example, perceived economic and class interests. It is very tempting to reduce federal and territorial political contestation to interests, drawing on the fact that politicians do generally promote the economic interests concentrated in their jurisdictions. But does that mean the economic interests care much about the welfare of that place, or does it mean that they shape politics wherever they can? Outside the stateless nations, few people care about federalism per se. While governments care about their budgets and citizens care about their taxes and
services, the principles of federalism such as regional autonomy, shared or different citizenship rights, and shared values are all rather abstract. Not only are they rather abstract and prone to be trumped by more concrete proposals such as a better pension, they are also prone to be sidelined in the political process that shapes any given decision by powerful forces such as class, economics, and parties. The rational strategy for most interests, even territorially concentrated ones, is therefore to forum shop. Only relatively rarely outside stateless nations do strong economic interests pursue the interests of a tier of government, often when their economic model depends on local control—most notably labor-repressive landowners such as the slaveowners of the U.S. South and the landowners of southern Spain in the early twentieth century.

In the chapter, the examples of Spain and the United States highlight the changing nature of territorial interests over time. As economies and societies become more homogeneous and as labor-repressive agriculture becomes less common, exogenous economic territorial interests that depend on a given level of government, such as slaveholders, become rarer. Few economic interest groups have a strong and permanent material stake in promoting the autonomy of a regional government. Instead, their interests are best understood as supporting the governments led by their allies at the moment and institutional frameworks that ease the passage of policies they support and constrain the passage of policies they do not support.

By contrast, greater wealth and the rise of regional governments in Europe have allowed resource-starved national projects, such as those of Wales and Galicia, to thrive. The Welsh and Galician governments can support distinctively Welsh and Galician public sectors that never existed before, from language schools to universities to a strong and nationally identified middle class.

The nationalization of rich societies has undermined traditional regional nationalism by homogenizing the conditions of life and has strengthened a neo-traditional nationalism by empowering governments and public sector employees who can express nationalist sentiments (Caramani 2004; Hopkin 2009; Chhibber and Kollman 2004; Lago-Peñas and Lago-Peñas 2011). Failing to notice this change leads to anachronistic arguments premised on the economic geography of the nineteenth and early twentieth centuries. One cannot make sense of these more recent regional nationalisms if one presumes that today’s pro-autonomy forces are ultimately based in a history of economic distinctiveness. Whatever explains developments
in Basque and Catalan nationalism today, it might be the legacies of but
cannot be the actions of the big actors who once shaped their politics. The
union-busting steel magnates of Vizcaya or the bosses of small Catalan
textile factories who were so crucial a century ago are no longer causes
(Díez Medrano 1995), for they are gone. Therefore, governments at any
level and intergovernmental relations are arenas for interest-based conflict
where governments fight and collaborate or silence and freeze priorities
that are only in a limited way set by territorial politics. In other words,
the full spectrum of behaviors we generally observe around institutions are
observable here. Federal institutions are not special.

Chapter 4 shifts away from macrosociology toward the constraints of
policy itself. Federal systems have a constitutional and legislative skeleton,
but the evolution of public policies and their financing constitute the
actual muscle and fat. Muscles shape and can support skeletons. A char-
acterization of things that matter in mature welfare states—the financial
resources of the different governments, their financial and legal leverage
over each other, their responsibilities, and their options with regard to
delivery, organization, and taxation—shows that these are built up out of
generations of policy decisions. Federalism and social insurance systems
interact differently than federalism interacts with tax-funded services, for
example, and intergovernmental finance built on conditional grants is dif-
ferent from intergovernmental finance built on equalization mechanisms.

It is conventional to group fiscal federal arrangements with the institu-
tions of federalism, but since they are completely bound up with alloca-
tions of authority and policy design, it makes more sense to group them
with policy legacies. They are all legacies of previous decisions that shape
the actual map of veto players, interests, and policy options. This is a
theoretical claim: the allocation of finance and authority over policy are
only partly constitutional in legal terms, but they constitute political and
policy possibilities. The chapter on legacies precedes the chapter on formal
institutions to make the point that, in practice, constitutional law often
takes a back seat to programmatic and policy reality. While there is no a
priori basis for saying that policy legacies matter more than (often vague)
constitutional allocations of powers, neither is there any reason to accept
convention and imply that constitutions, rather than policy legacies, are
the primary shapers of the flow of money, the exercise of power, and the
realities of accountability and constraint.

Isolating federalism as an institutional variable, then, we can see how it
is enveloped in bigger factors discussed in chapters 2 through 5. Chapter 5, finally, arrives at the last set of variables that interact with federalism to configure it in practice—*interactions with other institutions*. It is common in analyses of federalism to simply discuss institutional interactions in terms of veto points, but those veto points are often not specified well enough and can mislead. The scale and nature of bicameralism (in particular the extent of shared rule) and the number and kind of veto points within governments explain much. For example, much of the difference between the United States, on the one side, and Canada and Australia, on the other, is that governments in the United States are full of veto points, checks and balances, which slow, shrink, and make complex their policies.

Chapter 6 presents our synthetic analysis of how to study federalism, revisits the four countries that receive the most attention in the book, Belgium, Canada, Spain, and the United States, and summarizes our analysis to show how a configurational analysis of federalism can lead to advances in the study of federalism, nationalism, and the welfare state. Previous chapters sliced into countries in different ways, using them as exemplary cases of different issues. Our last chapter recasts them as cases, showing how our hierarchy of variables and configurational analysis cumulates into a coherent story of how Belgium, Canada, Spain, and the United States came to be what they are today. The stories in chapter 6 of how our analysis explains our cases should show how our method makes sense of four very complex countries and welfare states in a way that variable-based approaches do not.

We then extend the analysis into the European Union, a case on the very edge of federalism (since its nature as a federation is legitimately debated by both scholars and publics). Our goal with the example of the EU is to show how our approach can shed light on a vexing case, a polity that might be a federation and might be something else entirely. If we are right that our approach can shed light on the changing EU, that might be provisional evidence that it could shed light on other federations and polities around the world, thereby showing the virtues of qualitative configurational comparative analysis.

**Cases**

Although this book is more a theoretical contribution than a research monograph in the traditional sense of the term, some methodological
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remarks about case selection and analysis are necessary before we start building our configurational framework of the analysis of the federalism and social policy nexus. We decided to focus on rich democracies that take a federal shape. This considerably limits the number of available cases—though expanding the discussion to include the number of theories of federalism, political institutions, and the welfare state in lower- and middle-income countries would just as rapidly overdetermine the world’s limited number of federal countries. We listed sixteen good theories explaining the shape and generosity of the welfare state for the OECD’s eleven federations; it would not be hard to add distinctive and good theories from the literature on countries as different as Argentina, India, Nigeria, and South Africa at a faster pace than we added cases. Our approach, therefore, is what we hope will be generalizable to countries outside the rich democracies we study.

The small number of cases further reinforces our call for context-based, configurational case study analysis, which typically relies on process tracing and qualitative historical yet theoretically informed empirical analysis. The four countries that receive the most attention as examples and whose histories we present and explain in the conclusion are Belgium, Canada, Spain, and the United States. They are selected not to make an inferential point but rather to show how configurational analysis illuminates the relationship between federalism and the welfare state. We chose them because they each combine different kinds of territorial politics over their history and territory. Spain, Belgium, and Canada combine multiple nations and regionalisms, allowing us to explore different dynamics of identity and territory while keeping the number of case studies reasonable. Likewise, the United States offers a relatively clear-cut case of a steady nationalizing trend in economics and politics since its Civil War, which allows us to study the politics of a country that is more nationalized (Caramani 2004) than many European states.

As the coauthors of this book, we have each published extensively about these cases, which means that we know them well. In fact, it is in part the study of these cases that, over the years, drew our attention to the limitations of much of the existing federalism literature, so it is fitting that we return to them in order to build the configurational approach we formulated in response to these very limitations.

At the same time, the framework we have developed forced us to take a fresh comparative look that adds to our understanding of our cases and
of how their experiences contribute to the analysis of federalism and social policy.\(^5\) In addition to these four main cases, we decided to discuss the other rich federal countries. This is especially the case in chapter 2, where we classify rich federal countries based on the intensity of territorial identities and conflicts, and in chapters 4 and 5, where we explore the complex nature of political institutions as they interact with federalism. In chapter 3, however, we decided to offer more detailed case studies featuring two of our main country cases: the United States and Spain. The reason behind this choice is that chapter 4 seeks to illustrate with more depth how territorial identities and political institutions discussed in the two previous chapters interact with interest-based struggles. It is also because the United States and Spain are not commonly compared, and for good reason. Findings that span them while remaining sensitive to their complexity and differences are, we hope, convincing. Overall, the way we use the cases across the three main chapters is driven by our theoretical aims rather than by the need to provide exhaustive empirical analysis, which is not the primary objective of this concise, framework-building book.

\(^5\) This is also why understudied topics that require a separate, in-depth analysis such as race or Indigenous politics in Canada as they interact with the welfare state are not addressed in the book (on these topics, see Banting and Thompson 2021; Papillon 2019).
CHAPTER 2

Federalism, Territorial Politics, and Identities

We start with territorial identity as the first variable whose interaction with federalism is crucial to understanding federalism’s impact on politics and social policy. Territorial identity, which refers to feelings of belonging to a spatially defined and bounded political community, induces specific forms of territorial politics. Politics is not limited to the agency of de-territorialized groups and individuals connected to these groups (whether they be based on social classes, gender, age, race, or sexual orientation, among other factors), as it also involves layers of organization and institutional development beneath and, sometimes (as is the case of the EU), above the state. A common limitation of much of the comparative literature on federalism, decentralization, and social policy is that it fails to pay sufficient attention to the distinctive nature of territorial politics and identities in which welfare state development and debates are embedded. The nature of territorial politics, and in particular the presence or absence of a mobilized stateless nation, changes almost anything it interacts with.

This is reflective of a broader tendency within political science to assume that territory starts and ends with the state, most often assumed to be a (mono-national) nation-state (Hepburn and Detterbeck 2018: 2). There is strong evidence that identities can shape public policy across policy areas (Akerlof and Cranton 2010), and students of federalism and social policy need to take seriously not only class, gender, race, and other such identities but also territorial identities and related politics as factors that can directly impact welfare state development. In fact, under some circumstances, debates over decentralization and federalism are not simply about governance, policy, and outcomes but also involve territorially
based identities that can impact welfare state politics and create another level of conflict over social programs. In the context of significant territorial identities, social policy decentralization can become an end in itself, as substate governments engage in mobilization processes whose objectives are defined in terms of an existential quest for autonomy and even collective survival. Particularly salient in multinational countries where at least one community self-identifies as a nation distinct from the one promoted by the central state (and where therefore some territorial identities are national identities), these highly politicized territorial identities have the potential to significantly intersect with, and durably affect, welfare state development.

Only a limited number of advanced industrialized states feature this type of territorial identity, one that makes federalism and decentralization issues resonate with citizens and political actors to the point where these issues drive welfare state reform as much as, if not more than, substantive policy objectives, such as providing retirement security or quality health care to a country’s population. In such a context, states featuring a plurality of national identities and important conflicts over the territorial arrangements of social programming serve as cases against which we can assess dynamics in other states, especially mono-national states, where the welfare state is not typically embroiled in percolating questions of national unity but where other types of territorial identities affect social policy from time to time.

As suggested below, starting with cases where national identities and nationalist mobilization shape welfare state politics and development gives us a vantage point into how, and to what extent, other forms of territorial identities may affect social policy in federal and decentralized states. As argued, while there is potential for territorially based political conflict around social policy in all federal and decentralized states, the presence and intensity of such conflict can vary greatly across cases. That variability depends primarily on the exact nature of territorial identities and politics.

This chapter explores variations in the importance of territory as it pertains to social policy in federal and decentralized systems. The main argument we make here is that the extent to which decentralization issues will penetrate welfare state governance is a function of the nature of territorial identity cleavages in a country (territorial economic cleavages of equal importance are rarer nowadays and the focus of the next chapter). Where these cleavages are of a national nature (i.e., in multinational states, divid-
ing the country in territorially defined majority and minority communities), decentralization is typically a central social policy issue because the minority community can perceive centralization as an existential threat. Where these cleavages are significant although not articulated in the language of nationhood, the question of the territorial structuring of the welfare state can be important at certain times and under some circumstances. But those cleavages do not have nearly the magnitude and, especially, the consistent significance they assume in the relationship between a minority national community and the state. In countries where there are territorial divisions stemming from federalism and some other type of decentralization arrangement but where these territorial boundaries have a relatively weak political significance, welfare state development is less likely to be affected by questions of territorial governance. Identity is analytically prior to the other variables that interact with federalism because it explains the underlying reason for much of federalism, the impact of territorial politics, and often the exact role of other variables that matter, such as party systems or electoral rules.

This chapter is divided into four main sections. In the first section, we develop a typology of territorial politics, distinguishing between nationalism, regionalism, and jurisdictionalism. We then explain how these various types of territorial politics intersect with the welfare state in federal and decentralized systems. We argue that nationalism has the most important impact on the territorial structuring of social policy since it will consistently look to decentralize its components. In the context of substate nationalism, welfare state politics becomes part and parcel of larger projects of differentiation and autonomy building.

The second section looks at instances where substate nationalism is present. Strong nationalist movements looking for either greater (and substantial) autonomy or independence for their community are rare in advanced industrialized democracies. Where they exist, however, they play a crucial role in shaping welfare debates and development. In this section, we look at how Flemish nationalism and Québécois nationalism have shaped the territorial politics of social policy in Belgium and Canada, respectively.

In the third section, we look at instances of regionalism. Regionalism is more common than substate nationalism, but its impact on welfare development, while often significant, is more circumstantial and less fundamental. This third section first looks at the Canadian province of Alberta, which is the center of a regionalism often called “Western alienation.”
The section then examines the United States, a country where questions around the territorial organization of social policy were long intertwined with strict racial hierarchies. These hierarchies proved especially resilient in the South, where they defined a form of regionalism.

In the fourth section, we look at instances of juridicalism. The exercise of political authority over a given territory within a state, when deriving from elections that generate a distinct political class, can create at least the embryo of a political community and, therefore, provide a territorial dimension to politics. This is the case in federations whose constituent units have limited historical, cultural, or ideological distinctiveness (such as in Austria) or in those where the federal government has built up the identity of the nation projected by the state to the point of greatly diminishing the identity of the constituent units (such as in Australia). Jurisdictionalism, as a form of territorial politics, has a weaker and more sporadic impact on welfare state development than regionalism and, of course, substate nationalism, a situation we illustrate by making references to Australia and Austria. The fifth section illustrates how Spain, which possesses all of these types of politics, reveals their interaction.

A Typology of Territorial Identities in Politics

The resurgence of nationalist movements, including recent and spectacular mobilizations over self-determination in Scotland and Catalonia, as well as the federalization of formerly centralized unitary states such as Belgium, Spain, and Italy, strongly suggests that some aspects of politics still have territorial grounding. In fact, despite many predictions that modernization and, later, globalization would render territory irrelevant (Badie 1995), it has become clear that politics and territory cannot be completely decoupled.

Despite its significance and increasing popularity as a research field, territorial politics remains ill-defined. To a certain extent, it seems to be a residual category for forms of politics that cannot be captured by a focus on social classes, group interests, ideology, or partisanship. This category, although resting on the notion that territory is central to some forms of politics, is quite heterogeneous (Hepburn and Detterbeck 2018: 1). In fact, the literature on territorial politics can include subjects as different as Basque nationalism and U.S. federalism. For heuristic value, we suggest
a typology of territorial politics, which can be used to make sense of its variable impact on social policy. This typology features three categories: substate nationalism, regionalism, and jurisdictionalism.

In many cases the difference is clear, whether in the case of “Rokkan regions” (Hooghe and Marks 2016) such as Scotland or Catalonia whose national identity is distinct or other regions at the core of titular nationalities such as Ile-de-France (Paris) or Castille. Not all cases are so clear, though, and, so, the best indicator for the type of territorial politics is the presence or absence of one or more political parties that represent a specific territorially concentrated political community and whether they have a demonstrated commitment to self-determination, either through increased autonomy or outright independence (which makes them nationalists) or through a more modest focus on regional cultural and political assertion (which makes them regionalists). The presence of such parties indicates that territorial politics is highly salient, and the extent to which these parties challenge the constitutional and institutional status quo determines whether they are best viewed as nationalist or regionalist. In the absence of such parties, territorial politics are almost always jurisdictionalist.

**Nationalism**

Substate nationalism is the rarest of the three instances of territorial politics. Nationalism is necessarily connected to territory because its politics are grounded in the notion of a homeland. There are three processes at the core of substate nationalism (Lecours 2000), and each of these processes is inseparable from the territorial homeland.

The first process is the construction, expression, and promotion of a territorial identity distinct from the identity connected to the central state. The territorial anchoring of this identity means that it can often supersede, or at least mitigate, other identities linked to class, ideology, and ethnicity. In Quebec, for example, the premium placed on the unicity of the nation and the primacy of national unity has often served to mute internal cleavages that were considered to undermine a form of national consensus.

The second process is the definition of collective territorial interests. As is the case for identity, nationalism simplifies the issue of interests by creating the notion of a “national interest” above and beyond group or class interests and seemingly unperturbed by internal territorial cleavages.
Nationalist movements hold this national interest to be, at least in some way, in opposition to the state national interest. In Quebec politics, the perception that a political party will vigorously defend “Québec’s highest interests” (les intérêts supérieurs du Québec) against the federal government (or the rest of Canada) is crucial to electoral success. Territorial politics is a valence issue for voters in Quebec as well as elsewhere (discussions of Scottish politics have perhaps best focused the discussion around territorial politics as a valence issue, notably Pattie and Johnston 2010; Seawright 1999).

The third process is territorial mobilization. Nationalism is more than the expression of a distinct identity and the defense of “national interest.” It is also the quest for a distinct political status, either autonomy or independence, which involves a territorialization of politics not only in terms of the nature of the accommodation sought from the state but also through the mobilization of support for constitutional and institutional change. The Quebec government’s efforts to amend the Canadian Constitution through a series of intergovernmental negotiations in the 1980s and early 1990s exemplify the crystallization of politics around territory during nationalist mobilization, as constitutional politics hardened the Quebec/rest of Canada dichotomy that still permeates in many ways social and political life in the country.

Regionalism

Regionalism is a more common form of territorial politics than substate nationalism. It is also a more difficult phenomenon to define. The difference between nationalism and regionalism lies in the quality of the political community that is defended: regionalist movements seldom claim to be acting in the name of a nation, and they tend to accept the national community promoted by the state. Under most circumstances, they do not challenge the integrity of the state. Regionalism can morph into nationalism if the notion of nationhood eventually finds enough support in a community, but these attempts are not always successful, as the Northern League’s experience in Italy has shown (Tambini 2004). Identity is typically not as central to regionalism as it to nationalism. Regionalism does involve territorial identity, but this identity is not deemed to be “national” and, therefore, is considered compatible with the national identity projected by the central state. Regionalism sometimes comes from the
existence of political units that preceded the creation of the central state and retained their individuality as political communities. At other times, regionalism seems to be a reaction against the state, as it speaks about political alienation (e.g., the Canadian province of Alberta) or perceived exploitation by the rest of the country (Northern Italy). In these contexts, the interests of the region can be defined as being in tension with those of the central state or of other parts of the country. Mobilization can occur to pursue these regional interests, but it does not correspond to an exercise in self-determination. The specificities of the region and its identity may be brought to bear in this mobilization process, where the objectives can be as limited as a change in the allocation of resources or as extensive as a reorganization of the territorial structuring of the state.

**Jurisdictionalism**

Jurisdictionalism is the weakest of the three types of territorial identities and politics. It derives from a territorial division of political authority found in federal and decentralized systems. For example, federalism generates potential for the development of political communities by creating constituent units with their own political institutions, elites, and symbols. In some federations (e.g., Austria, Australia, Brazil, and Germany), constituent units are far from being the primary political community of citizens no matter how much they matter to public policy. Their jurisdictional identity is much weaker than what we find in nationalism, or even regionalism, as citizens identify first and foremost with the central state and the nation it projects. As a result, constituent unit governments have only limited potential to mobilize their population and, therefore, tend to defer to the federal government. Still, in some circumstances, even federal arrangements where constituent units seem to be simply at the service, or under the thumb, of the central government can yield dynamics that affect political and policy outcomes (Benz and Broschek 2013).

**Impact on the Welfare State**

Nationalism is the form of territorial politics that has the greatest potential impact on the welfare state (Bélard and Lecours 2008). Most important,
nationalist movements are likely to seek the decentralization of social programs. This is true in part because social programs are useful for nation building, as they bring to citizens concrete manifestations of collective solidarity. At the broadest level, nationalist movements see incongruence between the “community of redistribution” and their national community as a problem that needs to be fixed. This incongruence would seem particularly intolerable if their community is wealthier than the rest of the country and, therefore, redistributive social programs direct money to people not belonging to their nation. Often, the call to decentralize a social program is part of a larger strategy designed to maximize the institutional and political autonomy of the minority community. If the central government agrees to such decentralization, it is seen as a “gain” by the nationalist movement; if the central government refuses to decentralize, the negative answer can fuel nationalist mobilization. In addition to advocating for the decentralization of social programs, substate nationalism makes coordination between regional governments on social policy matters less likely. Substate nationalism involves an emphasis on distinctiveness that often makes anything resembling attempts at policy harmonization a nonstarter.

Decentralization can also be part of the agenda of regionalist movements. A region may find that the central government’s social programs do not favor its inhabitants or that these programs do not correspond to their ideological preferences (McEwen and Moreno 2005). Yet, because regionalist movements do not make self-determination claims, the political weapons of regionalism in its efforts to decentralize the welfare state are less powerful than those of substate nationalism. In other words, the risk for the central government in refusing demands for the decentralization of social programs originating from regionalist movements does not include, at least in the short run, the prospect of secession. Regionalism can also have an impact on the welfare state in ways other than applying decentralist pressures. The grievances voiced by a regional government often have political resonance if only because there can be electoral risks for national politicians to ignore them. As a consequence, regionalism may lead political parties to pay particular attention to the way in which a social program affects a specific region. This consideration can, in turn, lead to a reevaluation of the territorial or even the substantive content of the program.

In the context of jurisdictionalism, the political class of a federation’s constituent unit is not overly concerned with building up the territorial cohesion, autonomy, and distinctiveness of its society, which means it does
not see control over social programs as a necessary or, perhaps even, a useful political tool. In fact, constituent unit politicians may be happy to let the central government design and sometimes even administer social programs to avoid the political blame stemming from retrenchment and other unpopular decisions (Pierson 1994). In federations that are centralized, there often exists a culture whereby the central government is viewed by most citizens as being the primary government in the country, the most competent, and the guarantor of the fundamental values and political principles of the nation. Even if constituent unit politicians wanted to challenge the distribution of responsibility around social policy, they typically would encounter formidable constitutional and political obstacles: an unfavorable division of power, a constitutional court that tends to favor centralization, and a population unenthusiastic toward the prospect of greater constituent unit control over social programs.

The following section explains, with case discussions, how substate nationalism places more pressure on welfare development, particularly the territorial structuring of welfare,1 than regionalism or jurisdictionalism.

Nationalism

Substate nationalism is a powerful political force in countries such as Belgium, Canada, Spain, and the United Kingdom. In these countries, nationalist movements pose a challenge to the territorial structuring of the welfare state. Here we discuss how Québécois nationalism and Flemish nationalism have influenced welfare development in Canada and Belgium, respectively. This section of the chapter is most developed because we want to emphasize how substate nationalism shapes the politics of federalism and social policy in unique and profound ways that have no real equivalent in other forms of territorial politics, especially jurisdictionalism. The presence or absence of multinationalism within a state is the most profound configurational difference.

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1. Here we simply refer to territorial distinctiveness in policy structure, funding levels, and distribution of authority between federal and constituent unit governments to affect, execute, and finance social policies.
Canada

Canada was designed by its founders as a centralized federation. This was a compromise between English-speaking Canadians, who preferred a unitary state, and French Canadians, who were looking for a decentralized federation. One sign of the intent to make Canada a centralized federation was that all the most important powers of the time were assigned to the federal government. At the time of the creation of the country in 1867, social policy in the modern sense of the term was largely outside the realm of public action and is therefore not mentioned in the British North America Act. However, “Hospitals, Asylums, Charities, and Eleemosynary Institutions” (Article 92, Section 7) were listed as areas of provincial responsibility, effectively putting much of social programming in the hands of the provinces.

After World War I, nationalism in Quebec became a significant force in the debate over the early development of modern social programs in Canada. This is the case largely because it (mostly unsuccessfully) challenged the creation of federal social programs in the name of provincial autonomy. At the time, French Canadian nationalism was socially and politically conservative. As a result, the Quebec government sought to preserve the Catholic identity and traditional ways of life of French Canadians living in the province. This priority involved efforts to fight off the federal government’s attempts to create countrywide social programs. For instance, there was opposition from Quebec to the 1927 Old Age Pensions Act (the Quebec government first refused to implement this shared-cost program), the 1935 Unemployment and Social Insurance Act (a constitutional amendment was eventually necessary to enact it’), and the 1944 family allowances (Quebec at first proposed a provincial alternative to it, but the Quebec program was never implemented).

The transformation of nationalism in Quebec during the 1960s Quiet Revolution made substate nationalism a more potent force in Canadian welfare state development. Not only did the Québécois nationalist movement leave behind the conservatism of French Canadian nationalism to take social-democratic orientations, but Quebec governments were no

2. Quebec’s conservative Union Nationale opposed it, but the Quebec Liberals, which formed the Quebec government following the 1939 provincial elections, accepted it as World War II was beginning.
longer content to assume a defensive position toward the federal government, choosing instead to strengthen their powers by struggling for a more decentralized version of the Canadian federation (McRoberts 1999). Indeed, the Quiet Revolution yielded a new two-party system in the province where both parties made, to different degrees, claims for change in Canadian federalism: the secessionist Parti Québécois (PQ) and the Parti libéral du Québec (PLQ), which promoted decentralization. For example, beginning in the 1960s, Quebec’s PLQ governments demanded the right to opt out of federal shared-cost programs with full financial compensation. Canadian federalism in those years often saw the federal government approach provinces with new initiatives, many of them social programs, and then offer to split their costs. For Quebec, shared-cost programs represented a way for the federal government to invade provincial jurisdictions using its fiscal might and to make to provinces offers their population would not like them to refuse.

The assertiveness of the new Québécois nationalism strongly shaped welfare development in Canada during the 1960s as it struggled for decentralization in the context of welfare expansion (Banting 1987). For instance, the creation of the Canada Pension Plan (CPP) in 1965 was accompanied by the establishment of a Quebec Pension Plan (QPP), thereby introducing some asymmetry in the territorial structuring of welfare in the country (Bryden 1974; Simeon 1972). The QPP was a direct product of the Quiet Revolution’s new nationalism insofar as the monies of Quebec pensioners could contribute to modernizing the province’s economy and to supporting entrepreneurship among Francophones, whose socioeconomic progress had been slowed down by a century of conservatism. Québécois nationalism was also influential in modeling decentralized health care (Béland and Lecours 2008). Indeed, as provinces were developing medical insurance programs in the 1960s, the role of the Quebec government in keeping health care within provincial control was especially significant (Boychuk 2008). From the perspective of a Quebec government that had wrestled control over the province’s health care and education from the Catholic Church in the context of a broad modernization and nation-building project, any federal centralization of the health care system was unacceptable. The content of Quebec nationalism had changed greatly, but neither its older nor its newer versions were receptive to centralization.

In the late 1990s and early 2000s, after constitutional negotiations aimed at securing Quebec’s support for a new constitutional order failed
and the subsequent 1995 referendum on independence came just short of showing a majority in favor of independence, Quebec’s PQ governments were particularly keen to build up and celebrate the distinctiveness of the province, not only as a French-speaking community but also as a more progressive and egalitarian society than the rest of Canada. In particular, the creation of two programs unique to Quebec, a public drug insurance program and a mostly publicly funded day care program, introduced more asymmetry to social policy in Canada. Symbolically, the day care program is especially important because its implementation was legitimized by a nationalist discourse about the particular strength of gender equality in Quebec and the goal of stimulating both higher fertility rates among the Francophone population and higher labor market participation among young parents (Béland and Lecours 2014).

The assertive expression of Quebec’s distinctiveness and the fierce promotion of this autonomy in the late 1990s and early 2000s also meant that federal initiatives to coordinate social policy in the country, or simply to create new social programs, would be opposed by the province. The most important such initiative was the Social Union Framework Agreement (SUFA), an intergovernmental agreement designed to introduce greater “collaboration” into the governance of social policy in the Canadian federation. The Quebec government did not sign SUFA, a move that led observers such as Alain Noël (2000) to argue that it was the only provincial government willing to challenge Ottawa’s centralist vision for social policy (and most everything else). For Noël (2000), Quebec’s willingness to defend provincial autonomy meant that “collaborative federalism” would involve a “footnote,” as the province would refuse to take part in any scheme that could facilitate federal intervention in constitutionally specified provincial social policy fields.

The formation of a Conservative government after the 2006 federal elections considerably tempered the surging impact of Québécois nationalism on the governance of social policy in Canada. The Conservative Party came
to power promising Quebeckers an “open federalism” (Banting et al. 2006) where, among other things, the federal government would respect provincial jurisdictions, especially in the field of social policy. This promise fit with the Conservative Party’s political vision in two fundamental ways. First, as opposed to the Liberal governments that preceded them, the Conservatives felt that developing new national programs in the name of nation building was not only unnecessary but, partly because it angered Quebec, counterproductive. Second, with the exception of new family benefits set to replace the national childcare initiative of the previous Liberal government, Conservatives were not interested in developing new social programs, as they prioritized tax cuts over extra federal social spending.

The Liberal government of Prime Minister Justin Trudeau has also mostly stayed away from embarking on the development of major national social programs that could be decried by the Quebec government as infringing on the province’s social policy powers. However, in 2017, the Trudeau government announced a National Housing Strategy, which would include a federal housing allowance, as a way to reduce homelessness. The Quebec government, then formed by the PLQ, which opposes the independence of the province, immediately responded that it would not adhere to this strategy and refused to accept any condition for receiving federal financing on social housing. Even in a context where support for independence is the lowest it has been in decades, these types of federal initiatives are aggressively challenged by Quebec political parties, which argue they represent an unwelcomed intrusion in the social policy development of the province. In 2021, the Liberal federal government announced its intention to create with the provinces a national, publicly funded day care system but, at the same time, specified that Quebec, which already has such a system in place, would be financially compensated without having to meet any conditions. The announcement seemed to satisfy the Quebec

“natural governing party” through a style of brokerage politics that included most importantly the management of the French-English cleavage (Carty 2015). Moreover, political parties in Canada, with the exception of the NDP and some provincial Liberal parties, are not integrated across levels of government. For example, the PLQ and the LPC are two completely different organizations, often at odds with one another.

4. The decrease in support for independence over the last two decades or so (from close to 50 percent in 1995 to near 30 percent in the late 2010s) has hurt the PQ, which now sits as the third party in the province (tied with another secessionist but further left party, Québec Solidaire), and profited the Coalition Avenir Québec (CAQ), a self-proclaimed autonomist nationalist party that now governs Quebec.
government formed by the Coalition Avenir Québec (CAQ), an explicitly nationalist party seeking greater autonomy within, but not independence from, Canada.

At a more general level, this connection between provincial autonomy, progressive social policies, and Québécois identity speaks to the consequences of nationalism for social protection in Quebec.\(^5\) In fact, the Quebec nation has been described since the 1960s as being more progressive and collectivist than the rest of Canada. Not only is establishing new social programs coherent with this national identity, but it also serves as a nation-building tool insofar as these programs can foster increased loyalty to the Quebec government and identification with the Quebec nation (Béland and Lecours 2008).

The story of the PLQ under the leadership of Premier Jean Charest and the rise and fall of the Action Démocratique du Québec (ADQ) shows the tight connection between the Québécois identity and progressive social policy. In the 1998 provincial electoral campaign, Charest proclaimed the end of the Quiet Revolution and the beginning of a new era in Quebec politics. This was widely viewed as a (neoliberal) challenge to the Quebec model. The PQ leader at the time, Lucien Bouchard, replied by insinuating that Charest’s ideas were foreign to Quebec. The PQ defeated the Liberals in these elections. In the 2003 provincial electoral campaign, the PLQ still promised change but was careful to stress that it would be coherent with “our values and our national affirmation.” The PLQ was rewarded for this approach with a majority government. A threat to this coherent Quebec nationalism was the emergence of the ADQ in 2002, an autonomist nationalist party, which experienced a meteoric rise in opinion polls. However, once some of its right-of-center ideas became known (e.g., school vouchers and a flat tax), the other parties denounced these “anti-Quebec” positions. While this forced the ADQ to backtrack and to commit to keeping Quebec’s day care and drug insurance plans intact, the party finished with disappointing electoral results anyway. In the 2008 election, the ADQ won only 7 out of 125 seats (Bélanger 2009) before merging with the then upstart CAQ in 2012. The ADQ’s brief history shows the difficulty in putting forward explicitly neoliberal policy ideas in Quebec, as they tend to be considered antithetical to Quebec nationhood.

As a result of the connection between national identity and pro-

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5. The following paragraphs are based in part on Béland and Lecours 2010.
gressive politics, nationalism has translated into more rather than less social protection in Quebec. Indeed, Quebec spends more per capita on social programs than any other province and has the most effective anti-poverty policies in the country (van den Berg et al. 2017). Nationalism also means that retrenchment is particularly difficult politically because to weaken provincial social policy is to weaken the *national* (provincial) state. For example, when Liberal leader Jean Charest came to power in 1998 and declared his intention to “reengineer” the Quebec government (amend labor legislation to make subcontracting easier; increase the original five-dollars-per-day childcare fee to seven dollars [Albanese 2006]; and reduce scholarship funding for postsecondary students), his reforms were denounced by the PQ as well as by various civil society organizations central to Quebec nationalism: trade unions; anti-poverty, community, and feminist groups; and student associations. Charest, his opponents claimed, was trying to bring Quebec “down” to the same level as the other provinces. In the end, the reengineering discourse was abandoned, as was any substantial retrenchment, and the Liberal government promised to keep the existing day care and prescription drug programs.

In the 2010s, Quebec nationalism did not prevent the PLQ government (2014–18) from enacting widely unpopular austerity measures to balance the provincial budget. Opponents to these policies, however, articulated a nationalist discourse according to which the Liberal government was attacking the Quebec model based on greater equality and economic solidarity than in other Canadian provinces. This rhetoric emanated from the PQ but also from labor unions and Québec Solidaire, a left-wing nationalist party that at the time had only a handful of elected officials but was generating much media coverage in the province (Fortin 2014). In 2017, in the wake of the expansion of CPP in the rest of the country, labor unions and other left-leaning forces pressured the PLQ government to adopt a similar expansion for QPP, arguing that it would be unfair for retirees in Quebec to receive lower old-age pensions than their counterparts in the rest of the country. In Quebec, where many citizens pride themselves in having a more generous welfare state grounded in a distinct and powerful form of national solidarity, not expanding QPP benefits seemed problematic from an ideological and political standpoint, which is why the PLQ government reluctantly accepted the idea that QPP expansion would mirror the recently announced CPP reform (Béland and Weaver 2017). The
new CAQ government formed in 2018 has committed to protecting all of Quebec’s social programs.

Overall, since the 1960s, substate nationalism has stimulated welfare state development in Quebec. But what about its effects on Canada as a whole? These are more difficult to ascertain, but there are reasons to believe that Quebec nationalism works at least to sustain levels of social protection in Canada. Indeed, the Canadian and Quebec governments are in competition for the loyalty of Quebeckers, and both see social policy as a useful nation-building tool (Béland and Lecours 2008; McEwen 2006). In this context, for the federal government to disengage on the social policy front not only would be a public policy decision but would also have national unity implications. From this perspective, the existence of nationalism in Quebec makes federal retrenchment in social policy more difficult to achieve politically. In addition, the development of distinct social programs in Quebec has had an agenda-setting effect elsewhere in Canada. For instance, the affordable day care program has inspired feminists and childcare advocates in other provinces and thus has created pressure on the federal government to create a similar Canadian national policy, which was announced in 2021. Indeed, in discussions on childcare reform across the country, experts have referred to the Quebec model as one of the main options available to policy makers at the federal level (as well as in other provinces), and when the federal government announced its intention to create a pan-Canadian childcare system it explicitly said the inspiration came from Quebec.

The long-term institutional effects of Québécois nationalism on the territorial structuring of welfare remain strong in Canada. Today as previously, Quebec vigorously defends its autonomy in social policy and its distinctive social programs, maintained even in periods of federal retrenchment, giving an asymmetrical look to Canada’s decentralized federal welfare system (Daigneault et al. 2021). The overall poor performance of the province during the first wave of the COVID-19 pandemic (with a very high number of deaths in long-term care homes) does not seem to have shaken Quebeckers’ belief in the quality of their so-called model.

Belgium

Belgium is a deeply divided society where federalism and consociational practices are used to manage divisions between Flemings and French
Flemish nationalism has been the driving force for a series of state reforms that have taken the country away from its original centralized unitary model toward a federal system seemingly in constant evolution. Belgian federalism is unique. It has two types of constituent units: Regions (Flanders, Wallonia, Brussels-Capital), which are territorially defined, and Communities (Dutch speaking, French speaking, and German speaking), whose membership is linked to language. Regions have the power to legislate over such (territorial) matters as infrastructure and economic development, while Communities have responsibilities for so-called matières personnalises that necessarily involve the use of a specific language, such as education and health care. The Flemish Region and Community merged, but the same did not happen on the French-speaking side. As a result, no two Belgian regional governments are strictly comparable: Flanders, Wallonia, the Francophone Community, Brussels, and the German-speaking enclave all have different powers and accountability.

Nationalism in Flanders has shaped debates about the territorial structuring of the Belgian welfare state as well as its substantive policy content. Yet, the ultimate impact of nationalism on social policy arrangements has not been as important as might be expected considering the pressures coming from key Flemish parties to decentralize the Belgian Social Security system.

Flemish nationalism has its roots in the marginalization and exclusion experienced by Dutch speakers in a state originally created for Francophones (Zolberg 1974). When the French-speaking elite proved unwilling to restructure the state as bilingual and bicultural, the Flemish movement focused on the preservation of the Dutch language and culture in the north of the country, first through linguistic legislation (McRae 1986) and then by promoting federalism. As the first reforms leading to federalism were implemented in 1970 and 1980, Flemish nationalist concerns began to extend beyond language and culture. By the 1980s, Flanders had reversed its traditional position of underdevelopment relative to Wallonia. Some Flemish think tanks and academics began highlighting that per capita Social Security expenditures were higher in Wallonia than in Flanders (Béland and Lecours 2008: 162–63).

Also by the 1980s, the three traditional political parties (Christian Democratic, Socialist, and Liberal) had split along linguistic lines after a series of crises had exacerbated intercommunity tensions. Newer parties such as the Greens and the far right were split from their inception. Belgium was thus politically dichotomized; the parties’ split produced not
only two fairly distinct political classes (Flemish and French speaking) but also two different publics. In this context, Flemish parties were caught in a process of nationalist “outbidding” (Lecours 2002), where these parties (with the exception of the Greens and the partial exception of the Socialists) tried to outdo each other by the extent to which they would decentralize Belgium in the next state reform. The question of the splitting of Social Security fell right into this political dynamic.

The nationalist parties spearheaded the drive to decentralize Social Security. In the 1980s, Volksunie proposed the splitting of virtually all aspects of social policy in Belgium so that Flanders would have its own policies and resources. As Volksunie’s popularity faded and that of the Vlaams Blok (later Vlaams Belang) rose, it was the far-right party that took over the issue, arguing that “Flemish social solidarity does not, and should not, extend to Francophones” (Béland and Lecours 2008: 173). When Vlaams Belang’s support declined as the Nieuw-Vlaamse Alliantie (N-VA) gained in popularity, it was the N-VA that supported the decentralization of Social Security. Increasing public support for the nationalist parties forced the other Flemish parties to take an aggressive position on the territorial governance of Social Security. Both the Christian Democrats and the Liberals have at different times offered support for this (partial) decentralization. For the Christian Democrats, such decentralization was congruent with their discourse about a “confederal” model for Belgium. For the Liberals, it represented a good ideological fit, since the splitting of Social Security would theoretically allow a right-of-center Flanders to have a social policy model based on the principles of individual autonomy and small government. Even the Socialists have had to speak to the question of the territorial governance of Social Security, warning that “abuse” of the Social Security system in Wallonia could not be tolerated (and thereby implicitly conceding the Flemish nationalist argument that Social Security is a subsidy that Walloons often waste).

There has been strong support in the Flemish party system for the decentralization of at least some components of Social Security for some time, and this question has been central to several federal election campaigns and subsequent negotiations over government formation. Despite these pressures, there has been little change in the territorial structuring of social policy in Belgium. The 2011–14 sixth reform of the state transferred legislative and executive responsibility for family allowances to the Communities. Also, a slight asymmetry developed in the territorial...
structure of social policy when Flanders developed a dependency program (Vlaamse zorgverzekering) to cover the nonmedical costs of health care. The French Community challenged the constitutionality of the Flemish legislation setting up the program, but the Belgian Constitutional Court (Cour d’arbitrage) upheld it.

The impact of Flemish nationalism on the territorial governance of Social Security has been mitigated by two factors: the structure of Belgium’s welfare state and the consociational nature of the Belgian political system (Béland and Lecours 2008). The Belgian welfare state developed before the federalization of the state. It assumed a Bismarckian structure, where “social partners” are involved in the governance of Social Security. Contrary to most other societal organizations in Belgium, these social partners (trade unions and business organizations) have not split upon linguistic lines and have opposed the federalization of Social Security (Béland and Lecours 2008: 182–88).

Consociationalism has been even more important in reducing the impact of Flemish nationalism on the territorial structuring of the welfare state. Francophone parties all oppose the decentralization of Social Security. Not only would such a change place additional fiscal pressure on the French-speaking Community, but the complete splitting of Social Security represents for Francophones the end of Belgium as a political community. As there is a constitutional requirement that federal cabinets be formed by an equal number of Flemish and Francophone ministers, government formation necessitates support from at least one French-speaking party (and typically more). As government formation processes have often involved negotiations over state reform, changes in the territorial structuring of Social Security need support from some French-speaking parties. For these parties, to agree to the decentralization of a significant component of Social Security would mean exposure to the wrath of their electorate and endangerment of their position in the politics of the French Community. As a result, something close to the status quo has prevailed on the issue of the territorial governance of Social Security despite strong pressures from most Flemish parties to alter it.

As alluded to earlier, this status quo was slightly altered by the sixth reform of the state, which decentralized family allowances. A major political force behind this was the rise of the N-VA, a right-of-center party

6. The remaining paragraphs of this section are derived from Béland and Lecours 2018.
seeking to reach independence after a gradual transfer of powers from the federal to the Flemish government. The effect of the N-VA on Belgian politics was first felt in the federal elections of 2007, during which time it formed an electoral cartel with the Flemish Christian Democrats (Christen-Democratische en Vlaams [CD&V]). The cartel easily won a plurality of seats (with the N-VA winning five of them) after having campaigned on the promise of significant state reforms, including a decentralization of components of Social Security. With the N-VA’s charismatic leadership of Bart De Wever and successful alliance with the traditional powerhouse of Flemish politics, thus raising the party’s profile, its potential participation in a federal coalition was a central question of the 2007 government formation negotiations. The N-VA was eventually excluded from the CD&V-led federal coalition, which did not produce any constitutional change, but the N-VA challenge altered the Belgian elite’s perceptions of social policy conflict and of the possibility of the decentralization of Social Security.

At that point, it looked like Francophone parties would succeed in avoiding any decentralization of Social Security. However, the Flemish parties that were featured in the governing coalition stemming from the 2007 federal elections, the Liberals and Christian Democrats, had made state reform an important part of their campaign pledges (especially CD&V). The failure to deliver on these pledges was a blow to their credibility. In contrast, the N-VA profited immensely from the absence of constitutional reform as it argued that the other Flemish parties had been unable to deliver for Flemings. N-VA leader Bart De Wever could also ramp up his denunciations of Belgium’s partitocracy, which he argued prevented Flemings from achieving the type of constitutional change and public policy that they wanted, including as it pertained to Social Security.

Additional pressure for state reform and the decentralization of important components of Social Security came in the form of the Flemish government’s so-called Octopus note. This document was presented in the Belgian Senate on 1 February 2008 and stated how the Flemish government saw the future of the country and the next state reform (Werkgroep 2008). In the note, then Flemish minister-president Kris Peeters expressed Flanders’s desire for further decentralization. On Social Security, the note stated:

Effective and efficient allocation of social security resources at the most accessible level as possible, and without undermining the
quality of care, is possible in our opinion only when the current
dispersion of competencies is changed. Thus, in 1999 the Flemish
Parliament asked for competence in the setting of standards, and
in the implementation and financing of all health and family pol-
icy, including health insurance and family allowances. (Werkgroep
2008: 9; translated by the authors)

The Octopus note was supported by two Flemish coalition governments
and therefore bound the four major Flemish parties (N-VA along with the
Christian Democrats, Liberals, and Socialists). At this point, it became
politically difficult for these parties to participate in a federal coalition
without a commitment from Francophone parties to proceed with a state
reform, including a partial decentralization of Social Security.

The N-VA’s momentum stemming from the first government forma-
tion crisis and the absence of a constitutional reform between 2008 and
2010 led to a strong performance at the 13 June 2010 elections as it won
twenty-seven seats, the most of any party not only in Flanders but in Bel-
gium as a whole. In French-speaking Belgium, the Parti socialiste (PS)
won a plurality of seats with twenty-six. These results produced a political
structure that made government formation extremely difficult. The N-VA
had a legitimate claim to be part of a government, but its position in favor
of Flemish independence made it a difficult coalition partner to accept for
Francophone parties. The N-VA was also the Flemish party least likely to
compromise on state reform and on the decentralization of components of
Social Security. The other Flemish parties, more specifically CD&V, had a
strong interest in having N-VA in government.7 Indeed, having the N-VA
once again outside of the coalition and criticizing them for their inaction
was not the preferred scenario of the three traditional Flemish parties. As
“the winner” on the Francophone side and habitual party of federal coali-
tions, the PS fully expected to be part of government. However, a coalition
featuring the PS and N-VA was unlikely. For the N-VA, the PS represented
a political force for the constitutional, institutional, and socioeconomic
status quo. For the PS, the N-VA was the ultimate threat to Belgian soli-
darity and progressive policies.

The government formation process primarily involved seven political
parties (N-VA and the traditional parties in each community), and it fea-

tured several different politicians assuming various formal roles specified by the king in the hope of finding some agreement toward a governmental program. The major challenge was to find common ground between the N-VA, sticking very much to the content of the Octopus note, and the PS. As months went by without a federal coalition being formed, pressure on the traditional parties, especially Francophone parties, to form a government grew, as this second government formation crisis in a few years seemed to give credence to the N-VA argument that Belgium was not working. The incentive structure for Francophone parties, and for the PS more specifically, began to change.

Indeed, the future of Belgium now seemed to require a compromise on the partial decentralization of Social Security rather than a staunch defense of the status quo. Moreover, as Bert de Wever could not possibly become prime minister of Belgium (an inconceivable thought for most and something he was seemingly uninterested in), there was a chance that PS leader Elio Di Rupo could be the first Francophone to occupy this position in decades. In this context, compromising on the decentralization of some component of Social Security became a more attractive option for Francophone parties, especially for the PS.

Family allowances, that is, benefits to families for the support of dependents (children), was the component most likely to be decentralized. Flemish parties liked the idea of decentralizing family allowances because they involved large sums of money. In the context of the political competition within Flemish politics, it was crucial for the traditional Flemish parties, especially the CD&V, to be in a position to say they delivered, without the N-VA, a significant state reform. To make this claim plausible, it was important to be able to put figures on the size of the reform (Dumont, El Berhoumi, and Hachez 2015); family allowances fulfilled this essential condition as they helped the chifffrage of the whole reform (€20 billion) (Goossens and Canoot 2015). For Francophone parties, family allowances could be (re)framed as peripheral to Social Security. Indeed, the program was described by the PS as essentially self-contained and involving no spillover into the more central aspects of social policy in Belgium.8

In the end, a proposal for a sixth state reform put forward by PS leader Elio Di Rupo was rejected as insufficient by the N-VA but endorsed by the five other traditional parties, which agreed to join the French Socialists in

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8. Interview with a PS official, Brussels, 2015.
a government. The N-VA was once again on the government sidelines, but this time Flemish parties could say they had achieved the most important state reform ever, one that created more “homogeneous blocs of competencies” and that moved “the center of gravity” of the federation from the federal government to the Communities and Regions (Dumont, El Berhoumi, and Hachez 2015: 14, 19). Francophone parties could say they found a way out of a crisis that seemed to threaten the very existence of their country without sacrificing the integrity of Social Security.

From an implementation perspective, the Flemish and French-speaking Communities would be jointly taking over the management and provision of family allowances. In the Brussels-Capital Region, the Common Community Commission (COCOM) would administer the family allowance system for all so that no “sub-nationalities” could be created in Brussels (a common fear among Francophones). This sixth reform of the state “marked the first time in Belgium institutional history that community powers were allocated to the Brussels-Capital Region. This transfer of powers is remarkable, as the bilingual character of Brussels and the lack of an autonomous culture are traditionally invoked as arguments against granting community powers to Brussels” (Goossens and Cannoot 2015: 47).

The sixth reform of the state allowed the question of the decentralization of social policy to largely fall off the agenda for the May 2014 elections. Further state reforms not being viewed as an immediate priority meant that the N-VA, which improved its performance yet again by winning twenty-six seats, could be part of the federal executive for the first time. Indeed, N-VA leader Bart de Wever signaled in the 2014 electoral campaign his willingness not to press for another round of constitutional negotiations. As a result, the federal government that emerged from the elections comprised the N-VA along with the Flemish Liberals and Christian Democrats as well as the Francophone liberal party (Mouvement réformateur), whose leader, Charles Michel, became prime minister.

The sixth reform of the Belgian state is unlikely to be the last, and the question of the territorial governance of Social Security will be back onto the agenda in the near future. In Flanders, most parties view Belgium as evolving toward even more decentralization, including on social policy, and we can expect that Flemish parties will press for transfers of powers from federal to constituent unit governments on programs such as health and unemployment insurance. In addition, the country’s fragmented social policy system faces serious governance issues, which create the sense...
that more reforms are needed to sort out what remains a highly complex and fragmented institutional setting (Popelier and Cantillon 2013). The country’s relatively poor performance during the pandemic (its infection rate was generally above the EU average) could create an additional impetus for further reform. Yet, on the Francophone side, the belief that the full decentralization of Social Security would lead to the end of Belgium as a meaningful political community is still very present, and Francophone parties will continue to attempt avoiding any further transfers of social policy. However, because the consequences for Francophone parties of exercising their collective vetoes on the decentralization of parts of Social Security in the context of a powerful N-VA can sometimes be detrimental to their overarching objective of stability and some form of unity for the country, the status quo in the territorial administration of Social Security may be a thing of the past.

Regionalism

After having explained the central role of substate nationalism in welfare state politics in Canada and Belgium, we now discuss two cases of regionalism, with the goal of illustrating how this type of territorial politics intersects with social policy.

Canada

The benefit of turning to Canada again, this time to look at regionalism, is that this case shows how substate nationalism and regionalism can exist side by side within the same country, a reality that makes it easier to compare and contrast the two types of territorial identities and politics. In Canada, Western regionalism, centered in the oil-rich province of Alberta, is by far the most influential form of territorial politics after nationalism in Quebec. Western regionalism originates in part from the debate, only settled in 1930 (Janigan 2012), over the provincial control of natural resources in Manitoba and, especially, in Alberta and Saskatchewan. This debate, and the sense that the largest provinces, located in Central Canada (Ontario and Quebec), ruled the country and paid scant attention to the
grievances of their Western counterparts, gave rise to what is known in Canada as Western alienation. More recent manifestations of this Western alienation include the debate over the National Energy Program in the early 1980s (when Alberta reacted with great opposition to a federal policy of oil price control) and the rise of Reform, a political party that initially sought to speak for Western Canada in the federal political arena in the late 1980s and the early to mid-1990s. Feelings of Western alienation are as strong as ever, as the Alberta and Saskatchewan governments have expressed deep frustrations over the approach of Justin Trudeau’s Liberal government to developing pipelines to take oil to markets in Asia and Europe. The Trudeau government, along with Eastern provinces such as Quebec, has, at least in the eyes of these two Western provincial governments, worked against the timely expansion of oil pipelines.

Regionalism emanating primarily from Alberta was for a couple of decades grounded in the broader notion that “the West wants in,” an expression that became the official slogan of the Reform Party in 1987 (Bright 2002). At the same time, Alberta premier Ralph Klein was complaining about the way the federal government was seemingly misusing, or even taking away, the economic and fiscal resources of his oil-rich province. In the field of social policy and redistribution, the discourse from Alberta is similar to the one associated with Flemish nationalism, in the sense that there is an argument that the province is disproportionately financing social benefits such as employment insurance that primarily help people in poorer regions of the country. The Alberta government of the 1990s and early 2000s also pushed back, at least rhetorically, against the federal legislation (the Canada Health Act) that stipulates the broad conditions for the federal funding of provincial health-care systems by suggesting that Alberta might explore a greater involvement of the private sector, even if it meant not receiving federal financing (on the health-care debate and the role of Alberta, see Bhatia and Coleman 2003). Western alienation as experienced in Alberta led to the idea of creating a “firewall” around the province, thereby protecting it against federal government influence over policy (social and otherwise).

In contrast to Flanders and Quebec, however, territorial mobilization in Alberta and other Western provinces is not about substate nationalism. Independence is virtually absent as a mainstream political option, and regional grievances are rooted neither in linguistic distinctiveness nor even
in a clear sense of a separate community of solidarity. This situation makes the push for social policy decentralization less powerful, as it is more about defending economic interests than about expressing a broader quest for national emancipation, as is the case in Flanders, or the need to make policies that reflect distinctive preferences, as is the case in Quebec.

A good illustration of the centrality of economic interests in Western regionalism is the critical position adopted by the provinces of Alberta and Saskatchewan toward the federal equalization program. This program uses the general revenues of the federal government to make payments to provinces falling under an “equalization standard” that correspond to an average fiscal capacity. The program brings these provinces up to that standard, thereby ensuring that all provincial governments in the country can offer public services of comparable quality at a comparable level of taxation (Béland et al. 2017). Alberta, a longtime oil-producing province, has always been critical of the program. Indeed, Albertan provincial politicians have long argued that their province’s money, through equalization, enables other provincial governments (such as Quebec’s) to run generous social programs (Béland et al. 2017: 46–47). In Saskatchewan, where the exploitation of nonrenewable natural resources is more recent, criticism toward equalization is more recent than in Alberta but takes the same basic form. Indeed, former premier Brad Wall specifically decried how “taxpayers in Saskatchewan and Alberta will continue to send, without question, about $2.5 billion in equalization payments to help support Quebec that receives $11 billion in equalization per year and $1.4 billion to Ontario” (Giles 2017). The current Alberta Conservative government has announced it will hold a referendum on equalization in Wall’s province if it deems progress on pipelines unsatisfactory.

Overall, Western regionalism, especially as it comes out of Alberta, is a form of territorial politics that, along with nationalism in Quebec, makes it harder for the federal government to create new national social programs or to improve coordination on social policy. The formation in 2015 of a left-leaning New Democratic Party government in Alberta led to a less defensive attitude toward federal initiatives in the social policy domain. For example, the Alberta government, unlike the Quebec government, did not criticize the announcement of a federal National Housing Strategy in 2017. Yet, the formation in 2019 of a United Conservative Party of Alberta government coincided with a renewal of critiques of the federal government.
United States

In contrast to Canada, the United States does not feature substate nationalism threatening the territorial integrity of the country. Historically, the South of the United States is where the strongest form of regionalism could be found, and this regionalism affected social policy in direct and important ways. This included secession and the brief development of a distinctive Confederate nationalism even more explicitly based on white supremacy and slavery than prewar U.S. nationalism (Brettle 2020; Faust 1989; Tucker 2020).

Although the issue of national unity was settled with the victory of the North during the Civil War (1860–65), the South remained, in the late nineteenth and early twentieth centuries, a primarily agricultural society featuring strictly enforced racial segregation. At least until the 1960s, most Southern governors and members of Congress defended state autonomy in the field of social assistance in order to preserve existing racial and economic hierarchies (Quadagno 1988). Although Southern states were among the poorest of the Union and would have directly benefited from larger federal transfers, preserving control over social programs targeting the poor constituted a vital policy imperative aimed at preserving a highly unequal economic, racial, and social order. This order only collapsed in the mid- to late 1960s, as the federal government took a strong stance against racism and segregation, in contrast with the situation prevailing during and immediately after the New Deal that created a social policy system targeting the white majority and largely excluding minorities (Katznelson 2005; Lieberman 1998).

The New Deal and postwar mobilization of the South against centralized federal programs and in favor of state control over welfare benefits constituted a form of regionalism distinct from the one witnessed in Western Canada, as it was implicitly grounded in a racial order. It would be inaccurate to talk here about substate nationalism because independence was not a realistic option after the Civil War and because the vast majority of people living in the South identified with the United States. Although there are clear similarities between the social and economic conservatism of pre-1960 Quebec nationalism and Southern regionalism (Boychuk 2008), territorial mobilization in social policy proved much more resilient in the former case than in the latter. Quebec nationalism is about the definition and redefinition of territorial solidarity in the name of the nation,
which contrasts with a Southern regionalism associated mainly with the protection of segregation and racial discrimination. Once segregation was dismantled, Southern regionalism declined; it was replaced by a strong allegiance to free market, small-government conservatism and the newfound domination of Republicans in the South who gradually displaced Southern Democrats. Although race remains a key issue in the South and opposition to the Affordable Care Act was especially strong there (Béland, Rocco, and Waddan 2016), pro-segregation regionalism collapsed because the policy and social order it sought to preserve died. Racial politics and most other valence issues in the United States today are strongly nationalized (which is why it is possible to see Confederate flags across the states of the old Union and to some extent in other countries; the racial identity that Confederate battle flag marks is no longer confined to Southern politics).

**Jurisdictionalism**

Even in countries where there is no nationalist movement and where regionalism is either weak or nonexistent, territorial politics may still exist in the form of jurisdictionalism. Jurisdictionalism typically has a modest and highly circumstantial impact on welfare state development. This type of territorial politics is often found in homogeneous societies where territorial mobilization is generally weak and territorial conflict thereby derives from practical questions of economic and service delivery efficiency rather than from a quest for territorial autonomy in and of itself. Jurisdictionalism does not always affect welfare state development, but it can from time to time. The cases of the mono-national federations of Australia and Austria illustrate variations in the effect of this type of territorial politics on the welfare state.

**Australia**

From both a fiscal and a social policy standpoint, Australia is a more centralized federation than Canada and the United States, two other federal systems it is often compared to (Obinger, Leibfried, and Castles 2005; Fenna 2018). With the partial exception of Western Australia, a state that
shows some characteristics of regionalism and that voted for secession in the early 1930s, today’s Australian states are prime examples of jurisdic-
tionalism. Although not completely absent, territorial conflict is muted
in Australia, at least in comparison with countries like Belgium, Canada,
and even the United States. Australia is characterized by a strong focus on
equality and uniformity, two principles that generally trump the push for
diversity and autonomy associated with more contentious forms of territo-
rional politics. It is a territorially homogenous federation where states and
territories have limited fiscal autonomy and where the federal government
looks to eliminate the consequences of territorial disparities in fiscal capac-
ity among the six states and the two territories through a comprehensive
horizontal fiscal redistribution policy.

The territorial homogeneity of Australia is such that it is not uncom-
mon for politicians to question the federal principle, something that
would not be tolerated in other federal countries such as Canada and the
United States. For instance, in October 2014, Australian prime minister
Tony Abbott referred to federalism as a “dog’s breakfast” that needed to be
fixed (Medhora 2014). Denouncing the apparent flaws of federalism is not
new in Australia, and, up to the 1960s, the national Labor Party pledged
to simply abolish it altogether (Galligan and Mardiste 1992). Although
it later abandoned this pledge (Galligan and Mardiste 1992), it is com-
mon in Australia to hear suggestions that federalism is the problem and
that the country might be better off without it. As Premier Anna Bligh of
Queensland (2011: 23) recalls: “In April 2008, our new Prime Minister
gathered together 1000 of our country’s best and brightest to imagine the
Australia we could be in 2020. As I left Canberra on that cold Sunday
afternoon, I was both inspired and alarmed. Inspired by the wealth of
ideas and the many new voices that had been unearthed by the process
and alarmed that the most recurring theme and, without doubt, the most
popular idea was the abolition of the states.” The very fact that the premier
of the second most populous state of a country feels compelled to explain
to her fellow citizens that federalism is not necessarily a bad thing clearly
suggests that states have a much weaker political legitimacy in Australia
than provinces have in Canada, for instance. In Australia, states are consid-
ered by citizens as subordinate to the central government, which is viewed
as embodying the nation and, therefore, superseding particularistic differ-
ences (Béland and Lecours 2011: 201). While states can still attempt to
mobilize in defense of their interests in the intergovernmental arena, they
do so without the support of strong regionalist or nationalist sentiments that fuel the territorial politics of social policy in other countries. This is why debates over health-care reform and redistribution tend to focus on efficiency and uniformity rather than on territorial identities and the quest for institutional autonomy.

Nevertheless, jurisdictionalism in Australia can have an impact on welfare state development. When then prime minister Kevin Rudd announced in 2010 that the Commonwealth government would take control of the country’s hospital system because he considered it mismanaged by the states, state governments did not refuse outright (as provincial governments surely would have done in Canada). In other words, state governments did not make this a constitutional issue. They did, however, make arguments about efficiency: how could the Commonwealth government run hospitals any better than they did without any pertinent experience? In 2010, Australian states, with the important exception of Western Australia, agreed to negotiate in the Council of Australian Governments a greater role for the Commonwealth government in the country’s health system. In this setting, states, despite their low-level rhetoric, were quite successful in “watering down” Prime Minister Rudd’s initial proposal and in 2011, in the context of the Gillard government, renegotiated the involvement of the Commonwealth in health care to further reduce the planned federal presence in this policy area. In sum, despite a general constitutional and political weakness that limits the strength of their territorial ambit, Australian states can occasionally shape the welfare state, as the previous example shows, by finding ways to curtail the centralizing ambitions of the Commonwealth government.

**Austria**

Like Australia, Austria is a more centralized and homogenous federation, where uniformity is emphasized at the expense of territorial autonomy and mobilization. In Austria, modern social policy, which took the form of Bismarckian social insurance, emerged before the advent of federalism. Although Austria became a federal country after World War I and the collapse of the Austro-Hungarian Empire, federalism has not exerted a strong impact on the country’s large welfare state, where the federal principle plays only a secondary role. As Herbert Obinger (2005: 182) puts it, “There
is little evidence that federalism has substantially influenced the developmental dynamics of the Austrian welfare state and . . . this conclusion applies both to the growth phase of the welfare state and to recent attempts to dismantle it.” In the field of social policy at least, the nine Austrian states (Länder) play a limited role, a situation exacerbated by a highly integrated and centralized national party system and the lack of veto power of these states within federal institutions, in contrast with the situation prevailing in neighboring Germany (Obinger 2005). More generally, Austria remains a highly centralized federal system. As Jan Erk (2004: 2) puts it: “According to its Constitution, Austria is a federation, but in practice the country works as a unitary state. Politicians, bureaucrats, interest groups, professional associations, trade unions, and, most important, voters, see politics in nationwide terms and act accordingly.” This situation leads Erk (2004) to describe Austria as a “federation without federalism.”

Austria is therefore a centralized mono-national federation, although there are territorial identities corresponding to the Austrian Länder, particularly in Tyrol. The centralized nature of the Austrian federal system and an unchallenged focus on the Austrian nation are the product of a long process of elite-driven nation building that has taken place in Austria since the end of World War II in an effort to move away from their identification with Germany that proved so strong and problematic in the aftermath of the 1928 Anschluss, when Austria became an integral part of Nazi Germany (Thaler 2001). If we add to this rather successful nation-building project centralized political parties and a limited interaction between federalism and social policy (Obinger 2005), we are in a better position to understand the apparent paradox of a country where territorial identities do not translate into anything more than a jurisdictionalism that has a very limited impact on welfare state politics.

Indeed, not only do Austrian Länder have quite limited legislative powers over social policy, but on subjects where they have such powers, they need to operate within framework legislation formulated by the federal government. Their powers are in implementation, and often their role in implementation has been informal (e.g., Mätzke and Stöger 2015). Territorial grievances are not entirely absent from Austrian social policy debates. For instance, social policy issues have been raised since the mid-1970s, as “the Länder have come together on a few occasions to assemble lists of Länder demands (Länderforderungen) on the federal government” (Erk 2004: 10). However, these efforts have had limited effects on the national
agenda. In 1979, for instance, one of the Länder, Vorarlberg, sought increased autonomy over a number of policy areas, including education policy (11). Yet, as Erk explains, although “the motion was . . . supported by 69 percent of Vorarlbergers, . . . it did not materialize into a nationwide movement for federal reform” (11). In education policy, as elsewhere, Austria has remained a centralized federal system, one where jurisdictionalism, such as that manifested in Vorarlberg, appears to have limited effects on social policy development. Alpine Vorarlberg is also wealthy, physically remote from the rest of the country, around seven hundred kilometers from Vienna, and closely connected to Switzerland and Liechtenstein. It is both the likeliest place for territorial political resentment in Austria and an unusual Land.

The federal principle is weak in the Austrian welfare state, and, regardless of the policy area, “the term ‘federalism’ in contemporary Austrian politics has come to denote administrative decentralization rather than a union between self-governing entities” (Erk 2004: 10). Austria therefore stands in sharp contrast with not only multinational federations such as Belgium and Canada but also mono-national federations such as the United States, where there is a significant form of regionalism, or Australia, where jurisdictionalism has had a more direct impact on the territorial governance of the welfare state.

All of the Above: Spain

For an illustrative final case, we can consider Spain, where all three types of territorial politics interact. As the next chapter makes clear, Spain has particularly strong territorial politics, with intense jurisdictionalism even in areas with little historical identity. Spain has well-known nationalisms in Catalonia, Galicia, and the Basque Country, whose interactions with central state politicians have shaped Spanish history, institutions, and the welfare state. During the democratic transition of the 1970s, these interactions led to the creation of the “State of the Autonomies” model in which seventeen autonomous communities (ACs) are responsible for much social policy and are major political actors. Spain also has parties like Coalición Canaria, Unión del Pueblo Navarra, the Partido Andalucista, Unió Valenciana, and the Partido Aragonés that are “nationalist” in name only and functionally regionalist in politics (Barberà 2009; Jerez Mir 1985; Bodoque Arribas 2009; Barberà et al. 2009). Catalan, Basque, and Gali-
cian nationalisms have each been focused on their respective AC (although sometimes their definitions of the nation bleed over into neighboring ACs like the Radical Left Basques’ significant presence in the north of Navarre) and generally uninterested in building formal alliances with nationalist and regionalist parties from other ACs.

The Spanish case offers an interesting contrast that further contextualizes the configurational approach and demonstrates the importance of nationalist parties for understanding welfare state dynamics in federal systems. Federal and regional social policy domains overlap less in Spain than they do in Canada, so competitive dynamics across levels of government are rare. Not coincidentally, central government austerity initiatives during the eurozone crisis were particularly aggressive with respect to health and education spending, the two largest policy areas controlled by regional governments. However, the central government failed to appreciate the nation-building roles of these policies; faced with a financial crisis largely of their own making, the Catalan nationalists were able to deflect blame for having generated the largest per capita deficit of any region by accusing Madrid of robbing the Catalan nation and thereby justifying their push for independence.

The policies of Social Security and labor market regulation in Spain provide us with another illustrative example. Pressures from the main center-right Basque and Catalan nationalist parties to decentralize the Social Security system have been strongly and successfully resisted by both the traditional nationwide parties and the social partners; their efforts to decentralize labor market regulation (e.g., rules about hiring and firing) have been only marginally more successful (Cavas Martínez and Sánchez Trigueros 2005; Gray 2016: 58–59). Central government resistance to decentralization has not provoked more aggressive actions from the nationalist parties in part because, at least until now, the national-level parties (especially of the left) have retained considerable electoral support in Catalonia and the Basque Country. There has been no similar consensus around the decentralization of Social Security within these two regions, and, therefore, central governments have managed to resist the decentralization of the system without provoking pushback from their regional affiliates.

The politics of labor market regulation and Social Security are in keeping with a broader commitment of Spanish statewide actors to maintaining market unity as an absolute goal (Marcos 2011; see also Nonell and Medina 2015 on increasing challenges from regional business groups). This commitment itself provides an object lesson in the complex ways the
politics of territory evolve from a configurational perspective. In today’s decentralized Spain, market regulation is one of the competencies that the central state is most loath to relinquish. Historically, in a putatively highly centralized, absolutist political system, no effort was made to enforce market unity: for example, prior to the civil war, the country’s labor-repressive agriculture depended precisely on the multiplicity of labor regulation practices in different territories. Today, market regulation, in labor markets and elsewhere, is an area that the modern Spanish central state refuses to relinquish for efficiency reasons, but also because decentralization would imply a dramatic loss of power and possibilities for political exchange in a highly decentralized polity.

Conclusion

Nationalism is not just a result of a state’s failure to incorporate—or dominate—a political community. It is also something that takes tremendous political work in and of itself, from building cultural movements to operating political parties to, in some cases, such as in the context of Francoist Spain, risking activists’ lives. State responses to substate nationalism are also important in understanding institutions; Spain would not be federal were it not for responses to nationalist challenge. Canada would probably resemble Australia were it not for Quebec. The result is that the interaction of territory, identity, and federalism is the first and most basic configuration in understanding federalism.

This is not to say, however, that all or even most of politics is territorial. Cleavages linked to factors such as class, gender, and political ideology matter a great deal, but sometimes the “typical” portrait of politics, which assumes the centralized unitary state as its basic unit, is simply not representative of reality on the ground. In federal systems, for example, the territorial division of power introduces structures with the potential for consolidating, or even generating, territorially based political communities (Roeder 2007). The territorial organization of a state may affect

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9. On the fragmented jurisdictionalism of Spain’s absolutist era, see Grafe 2011. For an overview of the ways in which jurisdictionalism evolved but remained central to Spain’s political economy in the late nineteenth and early twentieth centuries, see Moreno Luzón 2007. For the implications of this fragmentation for agricultural reform efforts during the Second Republic, see Carmona and Simpson 2017.
public policy. At the most basic level, federalism and decentralization can raise the question of the territorial governance of programs. Perhaps most importantly, they often lead to an analysis by political actors and citizens of who gets what defined by territory. In other words, the distribution of fiscal and social policy resources is viewed in terms of which region or constituent unit “wins” and which one “loses.” Moreover, when territorial units are involved, questions of power and prestige also come into play. For example, there is sometimes asymmetry in territorial arrangements, which can lead regional or constituent unit governments to compare the scope of their legislative and executive powers with those of other regions or units and to question any constitutional or political recognition of distinctiveness or differentiated treatment for such regions or units (Colino and Hombrado 2015).

This chapter explored the variety of territorial politics and their impact on the welfare state. As suggested, the nature and the intensity of territorial politics can differ greatly across states and, sometimes, over time or across regions within a state. To clarify and unpack the phenomenon of territorial politics and to better understand its impact on welfare state development and social policy debates, we formulated a threefold typology that distinguishes between substate nationalism, regionalism, and jurisdictionalism. We explained that nationalism is the most significant form of territorial politics when it comes to the pressures it places on welfare state development, partly because it has the peculiarity of making decentralization and struggles over the territorial organization of social programs an end in itself. Regionalism can also be a significant force affecting welfare state development. Its strength as a form of territorial politics is typically not great enough to challenge the very structures of the territorial arrangement of social policy, but it often seeks to insulate a region from changes pushed by the central government. Jurisdictionalism has the weakest impact on welfare state development, although, as the case of Australia shows, under the right circumstances this type of territorial politics can frustrate a central government intent on gaining more control over social policy. In sum, territorial politics is more or less central to welfare development, depending on its nature. What is certain is that territorial struggles over social policy are not simply the reflection of ideological or partisan struggles; they are also the product of the historical evolution of territorial cleavages and of the territorial structuring of the state.
CHAPTER 3

Interests, Nationalism, Regionalism, and Jurisdictionalism

If federalism is just one more kind of institution, best understood in the context of politics, history, and other institutions, then we need to understand how it interacts with interests. The different theories we discussed in chapter 1 each have their ways of dealing with interests, typically by taking them as exogenous and economic. Interest-focused theories of federalism sit alongside a broader set of case-specific literatures that ground explanations of territorial politics in exogenous economic interest and change, whether in explaining nationalism in the United Kingdom as a response to “internal colonialism” (Hechter 1975; Ragin 1976), in explaining Catalan nationalism as a bourgeois effort to free themselves from a rigid Spanish state (Solé Tura 1967), or simply in arguing that parts of the United States were internal colonies (Lewis 1978). These theories can be quite crude and mechanistic, but sophisticated scholarship has focused on differential economic geography and economic divisions of labor as the roots of territorial politics even in countries such as Belgium and Spain where nationalisms seem to be the dominant story (Zolberg 1974; Díez Medrano 1995).

Each of these theories identifies a given variable, namely territorially concentrated economic interests, and argues for its importance. This approach tends to focus not on explanation in general but rather on one explanatory variable at a time. As chapter 1 argued, this focus on single variables cumulates into a diffuse and ambiguous literature where everything, and nothing, seems to really matter. These scholars are also focused on identifying the interests of a government, party, or group. The search
for a single variable to stress comes with efforts to impute the interests of that actor and the relevant incentives. Thus, long after the Marxist-tinged scholarship of the 1970s, we have the rich and poor regions and people of Beramendi or the resource-seeking and blame-avoiding politicians of Falletti (Beramendi 2011; Falleti 2005). Looking on from outside, researchers identify or impute actors’ interests and see how a given institutional or political context shapes them (at worst, adopting something like economists’ representative agent approach).

This operation, while common in all forms of political science, is vulnerable to a basic constructivist critique (Abdelal, Blyth, and Parsons 2010). Even if we were all to agree that we can develop models based on optimizing individual-level greed and fear, there is a thick layer of context, interpretation, and strategic thinking among the actors that can render their actions relatively opaque to outsiders. There are no objective interests in politics; the closest we can come are actors’ understanding of their interests that we can identify with some measure of scientific objectivity. What is presented as an interest and self-interested action can be nothing more than perceptions of interests in the heads of the actor they are studying, and this can change with that actor’s ideas, understandings, or information. Political elites are typically very good at presenting people’s actions as rational, and political scientists are very good at engineering rationalist explanations, but both depend on exogenous preferences, rules, and beliefs. That is why efforts to distinguish between interests, ideas, and institutions in the abstract tend to collapse in theory and practice (Parsons 2007).

Paradoxically, the above-mentioned theories often pay little attention to interest groups, whether formal lobbies or broader interests in the political economy that express themselves in politics and public opinion. The problem is that aggregate units made up of individual actors unified by their interests and strategic position (politicians, bond traders, rich people) have a way of disaggregating into different factions and interests in ways that can be understood with empirical research but not necessarily posited ahead of time or generalized in a variable-based analysis. Politicians, though, have a variety of ways to build and break coalitions, elites have a variety of ways to influence policy making, and even voters have strategic options. All of them frequently have good reasons to opt for ambiguity about what they are doing and might well have fundamentally ambiguous reasons for action. This is the basic problem of the social sciences. The people we study are complex individuals in ambiguous social
contexts, and they can change their minds before we have figured out what they were thinking.

**A Theory of Regional Interests**

The solution to this problem is to work with approaches that emphasize context and deemphasize efforts to identify one or two objective interests that an actor pursues. That is best done by starting with the observed mechanics of politics. What observing politics shows, as many studies have demonstrated, is the strategic and tactical flexibility of politicians, the multiple routes to often poorly specified goals, and the huge role of ambiguity, chance, path dependence, and personal networks. Politicians, lobbyists, and others are not just rational; they are also creative and work in complex environments.

Interest groups, then, must be seen in terms of their efforts to find the forums, and politicians, that will work best for their interests. Lobbies “shoot where the ducks are” (Richardson 1993). They are paid to represent interests, most often business interests, and few businesses will see the structure of federation as an issue worth their attention. The best available hypothesis is therefore that interest groups will be pragmatic, given the choice, and not turn themselves into territorial lobbies. Rather, they will focus their efforts on the most relevant government and develop an organizational architecture that mirrors the political architecture of the country (Pross 1992; Sawer and Vickers 2010). Thus, the decentralization of Canadian health care led to a weakening of the Canadian Medical Association and a strengthening of provincial medical associations (Elkins and Simeon 1980; Tuohy 1992). U.S. parties, when out of power federally, tend to test and promote their ideas at the state level but pivot and become far more pro-federal when in power (Peterson 2006). When the United States is gridlocked at the federal level, the result has been attention to state experimentation. But the same forces that led to gridlock and a high level of both partisanship and success for policy demanders at the federal level have led parties and interest groups to increasingly nationalize state politics (Hertel-Fernandez 2014; Hopkins 2018; Grumbach 2018). The European Union has given us an enormous range of studies of lobbies, and again what they show is that even small adjustments in the power of the EU and other governments are tracked by the activity of lobbies (Coen
and Richardson 2009). When a policy area becomes Europeanized, interest group activity is not far behind.

Insofar as they cannot win at the most relevant level of government, lobbies will invest in secondary governments as an option to defend their interests in the interim. Private health care interests in Spain, for example, found Catalonia a hospitable place in the 1980s, when most of the country was governed by Socialists, but when a right-wing party took office through more of the country, they supported Spain-wide legislation promoting the use of the private sector. In the United States, the election of Ronald Reagan marked the start of a continuing drought of environmental legislation. Environmentalists accordingly focused on making progress on issues such as climate change in states, despite the structural weaknesses of states (Rabe 2008).

From this point of view, most interest groups will simply forum shop in federations. They will lobby, and organize to lobby, the governments most relevant to what they see as their interests and will engage with a less relevant government only when they are losing in the more relevant government. In the many areas where there is no stateless nation, such as the fifty states of the United States, voters (Dinan and Heckelman 2020) and elites (Peterson 2006) alike might have mild preferences for one level of authority or another but fundamentally tend to judge political institutions by their substantive outcomes.

What interests, then, are intrinsically territorial, such that they might have a long-standing preference for rule by a given layer of government? A resource dependency argument can identify them (Greer 2007). An interest is territorial if its key resource dependencies are reliant on a territorial social or economic framework. Southern economic interests in the United States that depended on oppressing Black Americans, such as the pre-mechanization cotton and turpentine industries, could not exist without a specific set of territorial institutions. They were part of a solid regional block—the “Solid South” as it was known. The Solid South delivered votes to the national Democratic Party in return for federal support for its authoritarian enclaves just as the industries dependent on southern low-wage labor substantially benefited northern economic interests (Bensel 1990, 2000).

Such regionalization of economic and political regimes is less and less the case. Conditions of life, and many economies, have been steadily homogenizing over the last century. Regional economies and ways of life
are less distinctive after more than a hundred years of advanced transportation, mechanization, communications, and state building. The conditions of life in different parts of rich countries are far more similar than they were a century ago. Likewise, many sectors of business have become concentrated, with local mercantile leaders displaced by corporate control and financial markets whose centers are far away in cities like New York and London.

As a result, many of the regional elites who are most consistently involved in promoting their region’s autonomy and power are in or close to the public sector, in fields such as education, health, law, and public enterprises. Their work is often involved with nationalist projects. Not only are the interests of Catalan language teachers bound up with the success of Catalan state-building projects, but the interests of Hydro Quebec or the distinctive Quebec financial sector are bound up with that nationalist project (Greer 2007; Levine 2010). Ultimately, almost any lobby will forum shop, going to whatever court, politician, or other agency that might help it, but some are more likely to defend the autonomy of a regional government and promote its autonomy and power, including its viability in the context of broader policy.

In the rest of this chapter, we show the interplay of interests and territorial politics across the sweep of political development and in a concrete case, using the illustrative experiences of two countries: the United States and Spain. Each of our two cases combines a description of federalism in the given country with a case of a key piece of recent legislation that shows how politicians make their own decisions within the constraints of history.

The United States and Spain are in some ways very different cases, with Spain’s relatively young multinational democracy, constrained by the eurozone, contrasting with the very old U.S. federation, democratized in 1965 with the Voting Rights Act, and relatively unconstrained by outside forces. Yet, not only are they both the subject of much narrow and rationalist top-down analysis, but they are also countries with an interesting mix of authority patterns and authority migration and a history of all kinds of territorial politics, up to and including secession and civil wars. We chose them as illustrative cases (and the Affordable Care Act as a particularly illustrative example for the United States), but the histories of Belgium, Canada, and many other countries have had the same interplay over time of territorial interests and national interests, and, in most cases, the diminution of territorial economic interests and their absorption into the public sector.
Homogenization, Decentralization, and Territorial Interests

In both Spain and the United States, as in most rich countries, cross-regional economic differences are far smaller than they were a generation ago. No one would confuse the Ohio Valley for its Silicon counterpart, but they both feature high-tech businesses and the same anodyne landscape of national retail franchises. Spain’s innovation economy is concentrated in Madrid and Barcelona, but one can find major and very different ecosystems of high-tech innovation in Bilbao, Seville, Zaragoza, Málaga, A Coruña, and elsewhere. Furthermore, like visitors to the United States, city-hopping tourists in Spain have to wander far from city centers to discover truly local commercial districts. In both countries, differences in economic structure are increasingly driven by population density rather than regional particularity. If there is a major cleavage, it is between urban and rural, and in fact between a few highly successful cities and the rest. Regions rarely map onto those borders. Nevertheless, claims of distinct regional interests have intensified in recent years.

Beramendi (2011) attributes this paradox to regional differences in aggregate wealth. Many a regionalist politician has mobilized support by claiming that poorer regions “rob” richer ones, in the north of Italy, in Catalonia, and elsewhere. Yet, such appeals are almost wholly absent in the United States, where the strongest advocates for expanding “states’ rights” are mostly representatives of states that benefit most from interterritorial redistribution because key federal programs assist poorer people, who are more numerous in those states (people who, if empowered, might threaten the political elites of those states). Moreover, the conflation of wealthy individuals’ preferences regarding marginal tax rates and partisan preferences for interterritorial redistribution is an explanation that is not only methodologically suspect but also empirically questionable.

We argue that there is no overall theory to explain the combination of secular decline in cross-regional economic differences and the persistence of political mobilization around regionally based economic “interests.” In both the United States and Spain, the increasing homogenization of socio-economic structure across regions and the increasingly sharp urban-rural divide have not brought about the demise of efforts to protect regionally based economic interests. However, the nature of the interests being advanced and the mechanisms underlying their reproduction and incorporation into partisan politics differ in significant ways.
In Spain, socioeconomic homogenization has been driven by both economic growth and the creation of a modern welfare state (Marchante and Ortega 2006). European integration provided the incentives and resources (capital and infrastructure investments) to bring about both the thoroughgoing commercialization of agriculture and the consolidation of a unified national market in a country historically characterized by powerful local markets (Closa and Heywood 2004; Guillén and Álvarez 2004). At the same time, the return to democracy encouraged politicians to create a modern welfare state delivering education, health care, and pensions at broadly similar levels to the entire population (Moreno and Sarasa 1993).

Critically, the Spanish constitutional settlement recognized the cultural particularities of several historic regions and provided a fast-track route to devolve significant competencies to the new regional governments in these regions. This asymmetric, quasi-federalist structure created incentives for both regional and national politicians to demand an equalization of competencies across the regions, so that by the mid-1990s all seventeen autonomous communities were managing their own education and health-care systems and together employed approximately 50 percent of all Spanish public sector workers. The employees of the regional governments and the private sector companies providing complementary services to the regional administrations came to comprise a sizeable middle class relatively sheltered from the vagaries of international trade and materially tied to the budgetary fortunes of the AC administrations.

Spain’s ACs are funded through two types of formulas, one for the Basque Country and Navarre (concertation) and a second for the remaining fifteen ACs (the “common” system) (León Alfonso 2015; Gray 2016). In practice, the concertation system provides far more resources per capita than the common system while encouraging fiscal responsibility on the part of these two regions. The common system features a grossly unfair partial equalization formula and limited regional budget co-responsibility, creating an opportunity space for regional politicians to mobilize support for greater resources and to avoid blame for policy outputs largely under their control.

The “State of the Autonomies” emerged out of efforts to accommodate—and contain—national identities in places like the Basque Country and Catalonia (Linz and Stepan 1996, chap. 6; Colomer 1986). However, its problematic design planted the seeds for a serious constitutional crisis. It provided regional politicians with both an opportunity to mobilize around
the system’s perceived unfairness and a population with strong incentives to identify their own material interests with that of the regional government. In areas like Catalonia where historic identities provided regional politicians with a rich repertoire of grievance tropes to reinforce these material interests, the budget crisis created by the 2008 financial crisis quickly morphed into a mortal threat to Spain’s territorial integrity. That observation helps to resolve the paradox of increasing territorial homogeneity in ways of life and serious territorial contestation.

In the United States, socioeconomic homogenization has been driven by the decline of traditional manufacturing and private sector unions in the North, the modernization of the South, and the expansion of a massive business and commercial services economy across the entire country. Conventional understandings of the U.S. welfare system in comparative perspective highlight the lack of protections from market risk: with the decline of private sector unions, job security depends on a worker’s market power; reliable access to affordable health care for working-age adults is a function of labor market position; dependent care is largely private; and access to education and, therefore, labor market opportunities is highly correlated with family wealth.

While state-level politicians have some capacity to ameliorate this situation through labor market regulations and supplementary welfare schemes, federal policy limits state capacity to offer systematic alternatives. COVID-19 showed how misaligned federal systems can be when they decouple the power to take coercive public health measures from the economic resources to cushion the blow (Béland et al. 2021; Greer, King, et al. 2021; López-Santana and Rocco 2021; Rocco, Béland, and Waddan 2020). Thus it was that U.S. states, many of which seemed ready to fulfill leadership roles the federal government refused, eventually gave in and lifted public health measures.

While the U.S. lacks regional nationalist movements or even much state-level regionalism, a broad swathe of its middle classes do have powerful incentives to identify with state-level politicians seeking to defend and to expand state-level policies that come under frequent threat from the federal government. State-level regulation of markets is an underappreciated dimension of the U.S. welfare state offering important protections to both upper- and middle-class citizens. In particular, many members of the U.S. upper and middle classes enjoy considerable protections from the vagaries of market forces thanks to service market regulations: state-
level professional licensing requirements (not only for doctors and lawyers but also for car dealers and plumbers); bidding rules for public works; make-work programs in the form of prison construction or operation; and bureaucratic rents such as consulting requirements for projects. State-level politicians are keen to maintain and often to expand this rent-seeking welfare system for the middle and upper classes—so keen that few have tried to disturb this system or even critique it (a pattern of nondecisions found in other established federations) (Matthijs, Parsons, and Toenshoff 2019).

State-level assertions of specific interests are also driven by partisan politics emanating from the federal level. The combination of federalism and a two-party electoral system has encouraged partisan resistance to federal initiatives at the state level. State-level politicians, frequently—and ironically—with major funding and direction from national-level business organizations, rediscovered in the language of states’ rights a useful wedge for mobilizing bias against both existing and proposed federal initiatives supported by members of the opposing party (Hertel-Fernandez, Skocpol, and Lynch 2016; Hertel-Fernandez 2014). From guns to health care to climate change, the assertion of the states’ constitutionally protected “interests” has become a useful trope almost wholly detached from the economic profiles of the regions in whose name these claims are advanced. Policy divergence at the state level is driven not by differences in interests but rather in opportunity structures created by a two-party system. As Republicans and Democrats increasingly come to represent distinct (national) constellations of business, the party that fails to impose its policy preferences nationally can fight a war of attrition at the state level, reinforcing the importance of these veto points. State governments, likewise, can become part of a nationwide authoritarian project if a national political party becomes authoritarian.

The United States

In contemporary literature, it is a commonplace that the United States is both a coming-together federation and a relatively homogenous country with essentially jurisdictionalist politics whose social cleavages do not lie along territorial lines and are not mobilized as territorial grievances. In the contemporary United States this is largely true, with territorial issues typically marginal and politics driven by other identities or class. Yet, the
The United States has been shaped by the response of the central state to a secessionist challenge—that of the South. Its Civil War in 1860–65 came about because of the failure of a compromise between the slaveholding secessionist Confederate States of America and the non-slave states of the United States. After the Civil War, a new compromise emerged that resembled much of white supremacy and survived almost a century, into the 1960s. As a result, much of the American welfare state was not just shaped by the legacy of slavery; its initial creation was in a country where elites of the authoritarian enclaves of the South exercised considerable national power. Just like Spain, Belgium, and the United Kingdom, the shape of the United States and its welfare state reflects the response of the central state to secessionist challenge.

Barrington Moore famously wrote about the dependence of authoritarianism on labor-coercive agriculture and the dependence of democracy on breaking systems of labor-coercive agriculture (1966). In the United States before its Civil War, the victims of labor-coercive agriculture were, above all, Black people, and their contribution to U.S. wealth was immense (Baptist 2014) (this happened on land taken from Native Americans).

There were two coexisting political and economic regimes in late antebellum America, the slave states and the free states. U.S. slavery was a complex and lucrative institution that required the alignment of many other local, state, and federal policies to support it, producing the solid block of the “slave power” before the Civil War (McPherson 2007; Richards 2000). Urbanization, for example, was a threat to slavery, and so Southern elites tamped down their cities, with predictably bad social and economic effects (Ashworth 1995; Majewski 2016). The South was part of a sophisticated and internationalized capitalist economy dependent on slavery (Beckert 2004, 2015), but slavery’s immense social and political requisites limited the creativity of Southern politics. Successful Southern politicians had to be focused on defending their “peculiar institution.” In the non-slave
American North, by contrast, variability in labor repression—and the complexity of the political economy—was much greater, and politicians thus possessed many more degrees of freedom, including the freedom to support and benefit from the growth of cities. This legacy of slavery led to a civil war and also shaped the Southern economy and political systems in ways that influence U.S. politics today (Acharya, Blackwell, and Sen 2020; Einhorn, 2008; Lieberman 2012).

Then as now the defense of Southern white supremacy was intermingled with the cause of “states’ rights,” which is a telling misreading of the territorial politics of slavery. The “slave power” was inherently expansionist, as was the anti-slavery block. Federal support for catching and returning escaped slaves was necessary, for example, if the slave states were to be able to hold onto their coerced workers. Likewise, prewar conflicts over statehood (notably a small civil war in Kansas) reflected the conviction of both sides that slavery could not survive as a minority, regional peculiarity in a largely free-labor country. Confederate leaders, in writing the Confederacy’s constitution, made their priorities and economic thinking clear, creating a centralized and militarized state with slavery as the overt priority.¹

The Civil War, wrote Moore, was at least a partial victory for democracy. It severely damaged the old slave-owning class and their coercive apparatus (Moore 1966; Skocpol 1998). For a brief period late in the war and again under Union (Northern) military rule known as Reconstruction, Black people, substantially through their own agency with variable assistance from the federal government, were free (Du Bois 2017; Foner 1988). The effects of their entry into formal politics were impressive; for example, Black elected officeholders raised taxes, improved education, and increased Black landholding. “The effect was not persistent, however, disappearing entirely once Black politicians were removed from office at reconstruction’s end” (Logan 2020: 1).

Walking around the South, it is hard to escape streets and even U.S.

¹. “Economic diversification and dependent enterprises could complement the Confederate South, but slave-based agriculture came first. The framers opposed interregional distributional politics and an environment too hospitable to white workers and immigrants. Although slaveholders pursued business and entrepreneurs became slaveholders, their political economic vision integrated rather than challenged slave labor. State governments controlled by slave-holding interests sponsored slave-built transportation networks, while wider ‘infrastructure and amenities failed to develop in large part because the property rights of slavery provided reasonably good substitutes—for the owners.’ Accordingly, the framers stripped away the general welfare as a basis for taxation. The ‘common defense’ remained” (Hall 2017: 267).
military bases named for Confederate leaders, and it is hard to avoid seeing statues of Confederates even on putatively liberal university premises. Usually, in wars, the winners get to put up statues of their heroes. The quantity and dates of those late nineteenth-century Confederate statues tip us off to the extent to which U.S. politics after the Civil War put the old white ruling class back in charge and even reinstated much of the economics of slavery in industries as diverse as the Mississippi Delta’s cotton plantations and the Florida turpentine mills (Blackmon 2009). The Confederates might have lost the Civil War, but they did well in a longer battle for white supremacy (often literally: former Confederate leaders reemerged as leaders of the post-Reconstruction America). Jim Crow, the name for legal segregation, was an economic policy as well as an assertion of white identity.

Reconstruction ended amid both Northern white abandonment of support for federal action in the South and an extremely violent white campaign to remove those Black politicians from office. By the 1890s the regime in the South was much different, a violent white supremacist regime in which Black people were economically, socially, and, above all, politically oppressed (Foner 1988; Bateman, Katznelson, and Lapinski 2020). To shorten the complex story, Reconstruction was only partially successful and was underpinned by federal military power against the wishes of local elites. “By empowering African Americans without fundamentally changing the social structure of southern society, Reconstruction generated incentives for Southern elites to invest in repressive state institutions like incarceration and the police to maintain the existing social order” (Mazumder 2019: 1). Those elites not only benefited economically from undervalued Black labor but also were able to use racial division as an effective response to any biracial mobilization against their economic and political privilege (Marx 1998; Merritt 2017). Reconstruction faced constant, armed opposition, which grew more effective as Northern political interest in supporting it waned. “Reconstruction failed because white supremacists reversed Black political gains after the Civil War through violence and that the federal government was unable, and at times unwilling, to stop them” (Byman 2021: 56).

Against this white backlash, the forces supporting Reconstruction were weakening. The waning of support for Reconstruction was partly a reflection of Northern fatigue with the expense of conflict in the South and the reconstruction of the alliances between Southern primary products producers in areas such as tobacco and cotton, New York finance, and
Northern industrialists using Southern products (Bensel 1990, 2000). It also reflected an increasing lack of sympathy among Northern white voters for Black people, who, like Asians, were unwelcome as economic competitors and victims of racist stereotypes (Salyer 1995; Richardson 2009). The votes of Southern representatives could be courted, the Republicans discovered that they could win national elections without the South (Bensel 1990), and the Democratic Party was more than willing to reassemble its coalition of white working men on both sides of the Civil War divide and extend it through patronage in the North (Skocpol 1998). Republicans hung onto office for a few years, in part, by creating underpopulated new states whose votes allowed them to maintain control of the Senate, hence the existence of two Dakotas (Weingast and Stewart 1992).

Diminishing Northern support with an emerging economic coalition against Reconstruction combined with the desire for Southern votes in the election of 1876. That year, Democratic voters elected President Rutherford B. Hayes in a race with no clear victor. Republican Hayes’s victory was part of a deal with Democrats who sought the end of Reconstruction and a clear field to establish white supremacy. C. Vann Woodward wrote in 1974 that “just as the Negro gained his emancipation and new rights through a falling out between white men, he now stood to lose his rights through the reconciliation of white men” (70).

In what mid-twentieth-century elite historians would tellingly call the “Redemption,” Southern political elites immediately applied themselves to reconstructing white supremacy through a variety of techniques ranging from poll taxes and literacy tests to “separate but equal” services that impeded Black peoples’ mobility, education, and other activities to vagrancy laws that allowed police in many jurisdictions to imprison Black people at will and even let them out for profit to plantations in a practice that rather resembled slavery.

This story, notably the compromise that produced the Hayes presidency and the end of Reconstruction, shows how both slavery and Jim Crow segregation were shaped by the interplay of federal and state power, with the federal government sometimes opposing but more often supporting white supremacy. When the federal government opposed white supremacy, white supremacy lost, which made it imperative for Southerners to form a powerful Solid South that could shape national politics. There is a tendency to speak of this pre–New Deal era as preceding “the American administrative state” and to characterize its federalism as a “dual federalism” in which the
Putting Federalism in Its Place

states and the federal government had largely separate spheres (Corwin 1950). This is wrong (Valelly, Mettler, and Lieberman 2016). The federal government had long possessed administrative capacities (Balogh 2009; Skowronek 1982; John 2008), ranging from the military to pensions, public health (Duffy 1992), postal services, and agricultural improvement (John 1998; Carpenter 2001). While there are still writers who speak of “dual federalism” as a description of the past rather than a largely unattained ideal type, the bulk of scholarship in American political development and history suggests that the federal and state governments were long intertwined, emphatically including in the South (Adler 2021; Johnson 2010; Larson 2002). Those services worked to the benefit of many Americans, most of them white men (Young and Meiser 2012).

It was primarily with the New Deal that the federal government began to reach deep into states to help people, with programs including the Works Progress Administration job corps, old-age insurance (Social Security), and federal labor and working conditions legislation (Smith 2006; Leuchtenburg 2005; Wright 2010), even as its work strengthened state governments as partners vis-à-vis even more recalcitrant and numerous local governments (Tani 2016). Southern politicians, who more or less by definition were supportive of white supremacy, were of two minds, identifying the very substantial benefits of New Deal expenditure for their constituents but also the risk that New Deal programs would undermine the economic and political dependence of the Black populations. As a result, Southern political elites in federal politics often supported New Deal legislation but demanded that it make benefits to Black people difficult to access in federal rules or the delegation of allocative decisions and enforcement to local governments. They pursued a strategy of boundary control, in which their key goal in federal politics was to maintain their authority within their authoritarian enclaves (Gibson 2013). Southern segregationists were vocal, and powerful, in the legislature as well as in the Democratic Party. Their preferences shaped legislation, and their preferences were for an essentially racist big government that would be deferential to state-level elites.

Subsequent scholars have argued that racism does not provide a single key to understand all the different policy areas, noting that Southern legislators were much more influential in social assistance (welfare) than in old-age insurance (Social Security) policy. Rather than arguing that Southerners shaped a Social Security program that discriminated against the
occupations of farm worker and domestic service, which were disproportionately held by Black people, they argue that the more liberal legislators’ goal in Social Security was not to discriminate along racial lines and that we should be careful not to apply one analysis to all programs (Béland 2005; DeWitt 2010; Davies and Derthick 1997).

The New Deal, World War II, and the postwar economic boom, as well as other changes such as the mechanization of cotton production (which made coercive labor less important for a key Southern product) and the migration by Black and white people to the industrial North, all made Jim Crow less sustainable (Gregory 2006; Samuels and Thomson 2020; Wilkerson 2010). Even its key proponents had trouble maintaining their case for segregation; it is noticeable how lukewarm influential Southern religious leaders came to be about its defense (Chappell 2009).

In this context, Robert Mickey successfully applied democratization theory to the South in the 1960s, viewing it as a series of authoritarian political regimes that were undermined by a mixture of internal challenges (the civil rights movement) and, crucially, external challenges (2015). The federal government, which since the New Deal had maintained an ambiguous relationship with Jim Crow regimes, turned against white supremacy in the 1960s. Specifically, the leadership of the Democratic Party progressively turned against its own racist Southern wing (Noel 2014; Schickler 2016) in a process that can be tracked, among other ways, by noting the increasing focus on racial and other kinds of rights rather than general social policy in Democratic Party manifestos (Gerring 1998). Democratic presidents John F. Kennedy and, especially, Lyndon B. Johnson threw federal support behind civil rights, and Johnson launched a War on Poverty that undermined both economic dependence and existing state and local patronage networks.

The result was an effective assault on Democratic white power elites that did much to democratize the authoritarian enclaves of the South. States’ rights—and Confederate iconography—were invoked to varying degrees to protect the old order against the challenge by a federal government and Black citizens over whom Southern authoritarian elites had lost control (Mickey 2008; Gibson 2013). As so often happens in U.S. federalism and policy making, the states turned out to have the autonomy that the federal government leaves them, and once Southern state parties were unable to block federal action against their interests in Washington, state
autonomy to operate authoritarian enclaves was reduced (at the price of difficulties for Democratic Party building since the national party’s commitment to equality outpaced that of state parties) (Galvin 2009).

The state parties might not have been able to defend white supremacy in an increasingly hostile Washington, but the process of undermining white supremacy damaged Democrats nationally and in the South. The Democrats’ commitment to welfare and civil rights unsurprisingly produced a backlash, a less violent replay of the end of Reconstruction that propelled Nixon and subsequent Republicans to national office in what was called the “Southern Strategy” (Phillips and Wilentz 2014; Heersink 2017; Maxwell and Shields 2019). In the South, the result was that whites abandoned the Democratic Party for over a generation, with the number of conservative Southern Democrats diminishing with each election, as they retired and were replaced by Republicans or as they switched parties. The appearance of Black legislators because of the Voting Rights Act interacted with gerrymandering to produce a South whose national representation by 2015 was a large block of white conservative Republicans and a smaller block of Black Democrats in racially gerrymandered states.

In the North, meanwhile, the civil rights movement endangered a variety of racially discriminatory urban machines as well as local power structures that advantaged whites in different cities, producing conflict ranging from riots to bitter contests over school desegregation (there are endless studies of particular cities; for a broad perspective, see Ogorzalek 2018). These conflicts led many Northern elites and voters to lose interest in civil rights. The politics of the post–civil rights era were therefore often conservative, with the South an increasingly solid underpinning for a largely white Republican Party. Getting rid of Jim Crow approximated the concerns of Southern whites to those of whites in the rest of the country and put the focus on oblique forms of economic segregation in areas such as hiring and housing, where Northern whites were often unsupportive of civil rights. The echoes of the end of the first Reconstruction were unmistakable: raising the costs of racial integration to Northern whites undermined the coalition for racial equality.

The effect of the civil rights era, and the gradual homogenization of Southern living conditions to the rest of the United States (not least due to interregional migration), means that a U.S. political system that long had a two-dimensional space now exists in one real dimension, according to analysts scoring legislators’ votes (McCarty, Poole, and Rosenthal 2008).
There is no longer a separate dimension of views on racial politics. Rather, concerns of race, including policy decisions with disparate impacts on race such as incarceration and welfare policy, are now assimilated to a broader left-right continuum. In this continuum, Southern white voters are now as massively Republican as Black voters nationwide are Democratic voters (Maxwell and Shields 2019).

To recap, the story of U.S. politics as it relates to interests is often told as a unique story, or presented in isolation, and only rarely compared with obviously relevant cases such as Brazil and South Africa (Marx 1998; Jarman and Greer 2020). But looking over it with the eyes of comparative territorial politics, it has quite a lot in common with other countries. It had a powerful combination in the antebellum South: a distinctive regional political economy dependent on support from the rest of the country and strong enough to create the secessionism that started the Civil War. The nineteenth century ended with a distinctive authoritarian South integrated into the broader country in a combination that was undemocratic in the South and bad for democracy in the federal country that Southern elites could shape. It would take a welfare state, the industrialization of key agricultural sectors, and the nationalization of the economy to create the conditions that would make it easy for the central government to weaken the authoritarian enclaves.

In the twentieth century, especially after World War II, many countries saw social and economic homogenization as the result of the postwar boom, the welfare state, and investment in unifying infrastructure such as roads. The United States was no different. The development of the welfare state and the homogenization of living conditions undermined both Southern white supremacy and the distinctiveness of the South (Quadagno 1988). Black people’s coerced labor became less useful, Black people could reduce their dependence on white elites, and in general the political economy of the South became more diverse and less distinctive.

This loss of distinctiveness was in large part due to federal policies such as Social Security, which enabled giant retirement communities in Florida and Arizona as well as better lives for the Southern elderly; mortgage tax credits and freeways that built successful, diverse, and segregated Southern cities (Nall 2018); immigration policies that made the whole country’s population far more Latino; giant military bases and military contracts that senior, Southern legislators directed to their states; and direct investment producing the cheap electricity of the Tennessee Valley Authority or
the high-technology hubs of medicine and the space program in Florida, Georgia, Texas, and Alabama. Federal infrastructure and other spending combined with Southern state efforts to attract industry with a low-wage nonunion model to fuel Sun Belt booms (facilitated by the mechanization of agriculture, which reduced landowners’ interest in labor repression). The distinctive political economy of the South eroded and became detached from dependence on white supremacy and with it the alignment of diverse cross-regional interests with federally supported Southern authoritarianism. At the same time, Northern white patience with Southern authoritarianism diminished enough to turn the federal government into an opponent of white supremacy, even if Northern white patience with the civil rights movement also quickly ended.

As Gavin Wright wrote at the end of his history of the Southern economy, “If this book is accurate, it has chronicled the history of an economy that no longer exists” (1986: 269). The result now is that the territorial politics of race in the United States are substantially separated from its racial problems. There are still racial divides in wealth, voting, and social fortunes, mapping local segregation is distressingly easy, and racial divides are still especially pronounced in Southern politics, but those politics are national and interwoven with class across the country. A century and a half of nation building by the federal government, combined with the diminishing usefulness of coerced labor in a modern economy, broke the link between territory and race that had shaped so much of the United States. Yet, in addition to remaining racial divides, it also left behind a United States with a welfare state and federal politics, shaped by the effects of Southern elite power in the federal government. Its poverty programs, military footprint, and infrastructure expenditure all reflected the effects of Southern politicians to gain resources while keeping control over their distribution and the often successful efforts of racially liberal Northern politicians to redistribute toward and invest in the poor of those states (Klinkner and Schaller 2009).

The result was that state governments were increasingly part of a nationalized politics. Nationalized parties, in particular the minority Republican Party (which benefited from undemocratic institutions: its presidential candidate has won a popular majority only once in the twenty-first century), increasingly turned state governments into part of national party contestation. Thus Wisconsin, not just a northern state but one with an unusually deep history of progressive social policy and effective govern-
ment, became effectively part of a southern-anchored Republican block due to a gerrymandered state legislature that converted majority Democratic votes into near supermajorities of Republicans in the legislature (in 2018, a 53 percent Democratic vote turned into a 60 percent Republican majority in the state senate and 63 percent majority in the state assembly). The destruction of that state’s historically democratic and competent governance, and its steady conversion into an authoritarian enclave, shows the strength of national forces when arrayed against local state distinctiveness. North Carolina and Michigan, which also shared histories of progressivism and a position astride twenty-first-century electoral faultlines, saw almost as much democratic backsliding for the same reason.

The result was that state political colors—manipulated by partisan restrictions on voting and political activity—became increasingly important to policy outcomes and life chances (Grumbach 2018, 2022; Montez et al. 2020; Riley et al. 2021). State governments became part of a national authoritarian project whose outcome was unclear as we wrote.

Reconstructing Practical Federalism: The Affordable Care Act

From this perspective, we can understand the Affordable Care Act, perhaps better known as the ACA or “Obamacare,” as another chapter in the nationalization of the American welfare state and a case study in the extent to which the triangle of territory (states), interests, and race has come apart. Racial issues were by no means absent in the Obamacare debates, as both literature (Fording and Schram 2020; Stout 2020; Tesler and Sears 2010) and internet depictions of Obama, the first Black U.S. president, confirm. The association of health care reform with a Black president led to the defection of a significant number of whites from their previous interest in universally guaranteed health care access (Tesler 2011). Subsequent state resistance to the ACA would also be focused in the South and often carry racial overtones. Nonetheless, the story of the ACA is that of a substantially nationalized politics, with forces opposed to the law, Democrats, and Obama using federalism’s many veto points. It is a story of interest politics using federal institutions in a way that produced territorial inequalities rather than a story of regional distinctiveness.

The politics of the ACA involved many politicians, including virtually all Democrats, who were to some degree committed to a health-care reform
that would contain cost growth while expanding coverage. It seemed that politicians of both parties would have an interest in those twinned goals, and in Massachusetts, the Republican governor Mitt Romney had signed a Democratic plan providing universal coverage through a combination of a mandate to buy insurance coupled with subsidies. That success, and the potential of the basic Massachusetts model to unite interest groups, meant that alternative plans were systematically squeezed out of the policy discussion (McDonough 2011). Many Democrats, wounded earlier in their careers by the failure of comprehensive health reform plans under President Clinton in 1993–94, focused on Democratic unity around a plan that would assemble the largest possible coalition of interest groups and the most acceptability possible to Republicans. Finally, the problems of the U.S. health-care sector kept comprehensive health care reform more or less permanently on the agenda, with employers, state governments, and individuals complaining about rising costs, mediocre quality, and deteriorating or unavailable health insurance (Peterson 2011). The three streams came together when Democrat Barack Obama replaced George W. Bush as president, and Democrats coalesced around a version of the Massachusetts legislation that would become the ACA.

In the decision stage, however, something remarkable happened. Both U.S. parties had been growing steadily more unified, in large part because the racial dimension of U.S. politics had become steadily less explicit and distinctive. With the election of Obama, the Republican Party attained a level of unity unseen in modern U.S. politics, with the ACA as the keystone of its unity and its opposition to Obama. Democrats began to catch up as they finally lost their conservative white Southern supporters for good. Four major elections (2006, 2008, 2010, and 2014) basically wiped out the remaining conservative Democrats and liberal Republicans, making it easier to unify both parties in Washington, while elites worked hard to polarize identities along partisan lines.

The ACA was legislation designed with an essentially transactional model of politics as that taught in classic American political science (Galvin and Thurston 2017). It was unwieldy but designed to please (or at least gain the acquiescence of) essentially every industry and assumed that individual legislators could be induced to support it in return for the opportunities to claim credit. It was then the victim of an assault by an ideologically and politically unified party that political scientists have not traditionally expected to find in the United States. This assault by Repub-
licans substituted position taking for credit claiming, since the benefits were clearly marked as being Democratic achievements and Republicans forewent the opportunity to influence it or take credit for it.

The ACA, in its design, had major implications for both federalism and public policy (Béland, Rocco, and Waddan 2016). Some of the most salient policies affected states. First, the joint federal-state program Medicaid, which provides health care for the poor, was expanded to cover everybody up to a nationally set poverty line rather than delegating many decisions about eligibility to states. Second, the law created a mandate for people to have health insurance and eased their purchase of health insurance with a mix of subsidies, regulation of insurers, and “exchanges” on which people could purchase individual policies. States were offered the opportunity to set up their own exchanges, which could mean as little as giving a contract to a national IT consultant or as much as creating an “active purchaser” that could negotiate good deals with insurance companies. These two provisions, among many others in the ACA, could be expected to appeal to all the key interest groups and politicians in states. Hospitals, for example, could benefit from the increased number of insured patients, while governors could reap credit for federally financed Medicaid expansion and sculpt their exchanges to please their supporters.

What framers of the ACA did not apparently expect was the scale of the Republican backlash in the courts and the states (Burgin 2018; Jost and Keith 2020). The Supreme Court, which is largely controlled by Republican justices, ruled that while the ACA was constitutional, the Medicaid expansion was an unconstitutional use of the federal spending power. Medicaid expansion, *NFIB v. Sebelius* held, was a federal abuse of states’ previous acceptance of Medicaid, adding one condition too many to the deal. States could therefore refuse to expand Medicaid.

Many state governments, meanwhile, declined to take the intended interest group rewards and instead pursued a partisan logic of noncooperation with the ACA. After a 2010 election that handed over control of many state governments to the Republican Party, there was a wave of state noncooperation. This took two forms. One was the refusal to establish an exchange. In those cases, states (most of which, ideologically, would have refused to establish active purchasing) simply did not establish exchanges and left their citizens to rely on an exchange operated by the federal government (Jones 2017). More damaging, perhaps, some states did not accept the Medicaid expansion, including states with large numbers of uninsured people such
as Florida and Texas (Rocco, Keller, and Kelly 2020). This decision, which forewent a great deal of federal money and put a great deal of pressure on health-care providers, was a remarkable case of position taking triumphing over credit claiming and of partisan opposition to transactional politics.

The list of states whose governments opposed the ACA does include most of the Old South, but it also includes quite non-Southern states such as Wisconsin and Wyoming. What they had in common was government by the increasingly nationally coherent Republicans. ACA resistance took a partisan form, but state self-rule and judicial independence meant that it was channeled through partisan courts and state governments. In some states the ex-post leverage that states have when they implement legislation gave governors the ability to negotiate different terms for ACA compliance through waivers and to claim credit for some policy originality. In most of the noncooperating states, though, the key variable was the strategies of Republican politicians and their willingness to forgo credit in the eyes of voters and health-care interest groups in order to take positions opposing a Democratic policy associated particularly strongly with Obama. The sustained campaign of opposition to the ACA showed the extent of the nationalization of U.S. politics, with Republican legislators taking votes that directly endangered local health-care providers (e.g., to oppose Medicaid expansion) in order to remain true to national party strategy. Later, as states’ voters supported referenda expanding Medicaid, Republican elites still fought against them despite the many benefits. Remarkably (especially for readers of the vast literature on the “new politics of the welfare state”), they almost succeeded in a 2017 repeal of the ACA (Hacker and Pierson 2018).

In this story we see that while there are still serious regional variations in U.S. voting and political cultures, the dictum that the country is, now, territorially homogeneous has much merit. Federal policies, including the ones that broke the authoritarian enclaves of the South, helped the country as well as its party politics. The policy debates, institutions, and programs that evolved in the decades of contestation between Southern white supremacy and various elites from the rest of the country, however, shaped the possibilities and the extreme number of potential veto points (Stepan and Linz 2011). Federalism in the United States, combined with its extreme degree of separation of powers within governments, means that opponents of the ACA could go beyond forum shopping and wage a five-year campaign of trench warfare against the act in courts and states. The
nationalization of U.S. politics can be seen in the extent to which these opponents fought this campaign despite the fact that the consequences would often have hurt their own districts and donors most of all. Local health care interests, which textbooks would say should have been influential, were a decided second place to a national partisan campaign.

Spain

Of the distinctive characteristics of interest politics in Spain, perhaps the most noteworthy is that politics takes precedence over interests. Partisan cleavages are more important than interest conflicts. The articulation of interests on a permanent and continuous basis is thereby delayed and in part unsuccessful. . . . Political alignments very often crosscut interest groups, with political considerations taking precedence over economic interests. This resulted in shifting and sometimes paradoxical and covert alliances, particularly in the three-cornered conflicts among the central government, the peripheral nationalisms, and the labor movement. The salience of the religious conflict gave politics an ideological dimension that heightened and cut across class conflicts and distracted attention from other alliances. The growth of the middle class, whose status and income [were] more dependent on the state than on the economy, contributed to the importance of ideological rather than interest politics, as did the relatively greater role of professionals and civil servants in the political elite than of business men. (Linz 1981: 366–67, italics added)

Spain is exemplary for complex territorial politics of all sorts, including the interaction of economic interests with territorial politics. The geographically fragmented peninsula has a long history of localism, nationalism, and vastly different political economies. Now, in a multinational democratic Spain with a developed welfare state, these legacies persist in the form of a politics of “who not what” that focuses on who shall deliver benefits more than what the benefits shall be. The Spanish welfare state developed since the democratic transition has done much to reduce poverty, but the predominance of “who not what” politics has limited the reduction of inequality and stymied innovation. These politics are both the product of the struggle to address regional nationalisms and a key driver of current threats to the territorial integrity of the Spanish state. The two most assertive regional nationalities—the Basques and the Catalans—have, however,
evolved along different paths carved out by distinctive political economies of decentralization. Contrary to the expectations of most observers during the return to democracy, the decentralized State of the Autonomies has defused nationalist resistance in the Basque Country but come under tremendous pressure in Catalonia, qualifying its success as a model of multinational coexistence.

The relative failures of Spain’s welfare state and decentralized polity lie in and shed light on the role of territorial interests in politics. Spain, like the United States, suffered a civil war in which a regional political economy dependent on labor-repressive agriculture sustained elites who fought to control the whole state. In Spain, unlike the United States, those elites won their civil war and could shape the “very model of a modern elite settlement” (Fishman 2019; Gunther 1992). Decades later, at the end of the transition from highly centralist authoritarian rule and well into a large-scale process of social homogenization, Spain’s political elites built out a decentralized welfare state that has in turn created new territorial interests revolving around the new political units, their public administrations, and business or civil society interests that depend on those governments, from liberal professionals to architectural consultants.

Spanish politics involves contests between elites of different territorially concentrated economic sectors as well as the middle class, “whose status and income [were] more dependent on the state than on the economy” (Linz 1981: 367). The middle-class dependence Linz discussed once worked for the benefit of the central state, in competition with peripheral economic distinctiveness, but now works for regional governments in competition with the central state. When politics was a contest for control of the central state, it was highly ideological and carried high stakes; territorialization now reduces the salience of left-right conflict by introducing new variants and interests, expanding the scope for horse trading at the price of territorializing politics even in regions with little historical identity (such as the two Castilles, Extremadura, Murcia, and La Rioja) and creating regionalist identities and political interests where once there was only territorial distinctiveness expressed within national parties (as in the Canary and Balearic Islands).

Spanish welfare politics is primarily about contests for resources and power between territorial governments (Dubin 2019). The result is both an explanation of a striking Spanish pattern, a politics of “who not what,” and a broader case of old- and new-model regionalism. In Spain, a pro-
cess of social and economic homogenization has accompanied a process of increasingly territorialized politics.

**Contending Political Economies and the Road to the Civil War**

Interest organization at the national level in Spain was for centuries thwarted by the persistence of distinctive local and regional political economies dominated by notables. In small towns and villages, these notables were known as “caciques”; in bigger towns and cities they were owners of large businesses and liberal professionals—lawyers, notaries, judges, and other senior civil servants. This economic variety was largely a product of variegated land tenure patterns in an overwhelmingly agrarian country with extreme geographic diversity and poor transportation infrastructure (Ringrose 1996).

In the north of Castille, a smallholder economy predominated. In Galicia, the equal division of estates among children left many farms too small to be viable and encouraged generations to emigrate for Latin America. On the Cantabrian coast, rural life revolved around self-sufficient family farms while heavy industry emerged in a region rich in coal and iron ore. In Catalonia and, to a lesser extent, Valencia, the commercialization of olive oil, wine, and citrus fruits created the conditions for the emergence of a local bourgeoisie and, eventually, industrialization through textiles. In the south of Castille, Andalusia, and Extremadura, the economy and political life were controlled by the owners of large plantations who often traced their roots back to the nobles and religious orders that supported the last stage of the Reconquest in the second half of the fifteenth century. The nineteenth-century disentailment of Church property and the privatization of the commons immiserated an already struggling, landless peasantry of the south, setting the stage for their subsequent radicalization (Malefakis 1970).

These distinctive political economies would come into sharp conflict with the various modernizing projects pursued during Spain’s Second Republic in 1930. The Second Republic was handicapped from the outset by badly designed constitutional rules and ideological radicalization on the left and right (Payne 1993). What doomed it was the question of rural land reform. When national politics collided with distinctive local and regional economies, the result was civil war (Malefakis 1970). Unlike the
U.S. conflict, however, the conflict of essentially material interests at the root of the Spanish Civil War was obscured by multiple ideological and class conflicts.

The anti-Republican coup that sparked the Spanish Civil War unleashed ferocious oppression of those forces perceived to have challenged the authority of large landowners, the monarchy, the Church, employers, and the Spanish nation: leftist Republicans, Socialists, Anarcho-Syndicalists, and nationalists in Catalonia and the Basque Country, particularly those nationalists not closely identified with conservative Catholicism (Preston 2012). While fascist, nominally anti-capitalist movements seeking to build a new society played a prominent role in the early years of the dictatorship, they were largely sidelined by traditional elites and less ideological opportunists linked to the winning side. As a result, the regime’s fiery Catholic nationalist rhetoric obscured the more fundamental result of the war—a restoration of the paternalistic localism that had long characterized life almost everywhere in Spain (Linz 1964; Cazorla 2010).

Like the U.S. case, Spanish history supports our thesis that cross-regional distinctiveness in political economies complicates the building of a modern welfare state. When national efforts to protect citizens from market risks collide with the logics underpinning regional political economies, intense resistance often results. The late nineteenth-century social safety net—primarily health care and indigent support—was provided by the Church and its philanthropic societies, which were also the exclusive providers of primary and secondary education and which concentrated in important old cities and newly industrializing areas such as Catalonia. In the early twentieth century, minimal labor market regulations and a weak Labor Inspection Service were introduced, along with some basic pension support for widows and orphans in urban areas (De la Calle 1997; Moreno and Sarasa 1993). The dictatorship of Primo de Rivera from 1923 to 1930 regulated industrial relations through an obligatory system of collective bargaining supported by the Socialist unions. Due to intensive resistance from landowners, these early welfare and labor market policies were virtually irrelevant for rural workers, especially those in the regions of Extremadura, Andalusia, and New Castile, where landless peasants worked large estates (Espuelas 2018).

The Radicals and Socialists who dominated the early governments of the Second Republic introduced and extended secular education, labor rights, and pensions. Each of these new welfare policies generated consid-
erable resistance. Indeed, the Second Republic suffered repeated attacks from within and without throughout its short existence. In 1934, the right won the general election, creating a revolutionary moment led by miners and other industrial workers in Asturias. This revolt was crushed by the military (under the leadership of one General Francisco Franco) with the support of the Socialist Party, the most important leftist force in Parliament. When the left returned to power in 1936, it began to pursue land reform in earnest. Then, and only then, a faction of the military heeded the long-standing call from reactionary forces to topple the Republic (Payne 1993).

As Malefakis (1970) detailed in his pioneering study, it was the agrarian question that turned a simmering caldron of material and ideological conflicts into a civil war. Agrarian reform was wholly incompatible with the existing labor-repressive political economy of southern Spain (Simpson and Carmona 2017). While some members of the bourgeoisie continued to support the Republic after hostilities broke out, most monied interests and foreign business interests supported Franco’s military uprising. In Barcelona, then the leading industrial city in Spain, the war precipitated an anti-capitalist revolution behind the lines. Not surprisingly, many of Barcelona’s commercial and industrial leaders would line the streets to salute General Franco’s triumphant arrival to the defeated city (Cabrera and del Rey 2002).

The insurgents and their supporters showed no mercy toward those who opposed the uprising. As the so-called nationalist forces advanced, they took pains to extinguish every last ember of support for the Republic. By war’s end in 1939, almost everyone who had supported the Republic in any active capacity from a moderate or leftist formation was either in exile, in jail, or dead. Those who had battled the Republic from the left suffered a similar fate. Supporters of the Second Republic, former revolutionaries, and their families continued to suffer repression, retaliation, and exclusion from economic and social life for some two decades after the war (Preston 2012; Ruiz 2009).

Fortunately for Franco and his closest allies, the country’s devastation, poverty, and relative geographic isolation from the main theaters of conflict kept Spain on the sidelines during the world war that started almost immediately upon his victory. As an Allied victory came to be increasingly inevitable, Franco was able to pivot successfully to retain power. He marginalized the government’s most committed fascists and rebranded his regime as National-Catholic and fervently anti-Communist. Spain was
excluded from the Marshall Plan and for a time was denied recognition by the Western European powers, but the Allies made no serious efforts to topple the victors in the civil war (Payne 1987).

A major hard currency crisis in the early 1950s brought about a major shift in the regime’s isolationist economic policy, forcing open the country to foreign direct investment (primarily from the United States) and deepening commercial ties with Western European markets. Spain became the world’s third most rapidly growing economy in the decade of the 1960s; this boom transformed a patchwork of local political economies into an increasingly unified national market for goods, services, and labor (Martín Aceña and Martínez Ruíz 2007). The decline of localism reshaped the cleavages that had given rise to the civil war.

Landless peasants and subsistence farmers abandoned the countryside in massive numbers beginning in the late 1950s, forming the nucleus of a new industrial working class in Spain and Western European countries, where several million Spaniards sought greater opportunities. This demographic transformation was driven by the pull factor of urban employment opportunities in a rapidly industrializing country (and of emigration) and the push of increasing mechanization in agriculture, the crushing of rural unions, and the increasing direct cultivation of large estates (Simpson 1985: 249–51). By the early 1970s, these changes had reduced agrarian conflict in the south of Spain to a level that could be managed through peaceful political channels during and after the transition to democracy (Watson 2008).

The rise of a new urban working class also pushed the Francoist regime to extend, albeit modestly, contributory pension schemes to include this new industrial workforce and to promote homeownership as a further protection from market risk (Moreno and Sarasa 1993; Guillén 1992; Flaquer 2002). The rapidly improving fortunes of the working classes increased their stake in the market economy and tempered the revolutionary fervor of the resurgent labor movement. While rising labor conflict would be one of the major forces driving the transition to democracy, the leadership’s broad acceptance of capitalist democracy eased another of the most destabilizing conflicts of the Second Republic (Fishman 1990). In Catalonia, labor movements also worked to promote moderate nationalism, which would make it hard for opponents to drive a wedge between Spanish and Catalan speakers, as had happened before (Greer 2016b).

As with the U.S. South, economic growth not only muted the zero-
sum nature of class conflict in both rural and urban labor markets but also encouraged the regime to ground its legitimacy in increasingly material terms (Moradiellos 2000). As the fervor of Spanish nationalist rhetoric retreated, significant segments of the bourgeoisie and growing middle classes in Catalonia and the Basque Country renewed their assertions of cultural distinctiveness (Díez Medrano 1995). Of all the cleavages that generated instability in the Second Republic, these regional nationalities would prove to be the most persistent and intractable as Spain returned to democracy. Indeed, the center-right Basque nationalist PNV would be the only major party to ask its supporters to abstain during the referendum on the draft Spanish Constitution in 1978.2 Despite this outright hostility to the new constitution and the long-running threat posed by the Basque terrorist group ETA,3 the most serious threat to the territorial integrity of democratic Spain would ultimately come from Catalonia, not the Basque Country. As we shall see in a moment, this surprising turn of events is directly related to the differing structures of welfare state federalism in Spain and the disparate consequences of these structures for interest organization in different regions.

The Resurrection of Nationalism and Regionalism

Social structures—and life chances—in today’s Spain are far more similar across regions than they have been historically (Marchante and Ortega 2006). The economic and employment structure of any given place and the lifeways of its people, from food to entertainment, are more similar than they ever have been, and the biggest differences have now more to do with urban and rural than with the power of sectors such as industry, construction, or tourism. The welfare state accelerated and expanded the territorial breadth of this homogenizing project, sustaining both a decent quality of life for the poor and a viable middle class in rural areas that in

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2. In 1978, 90.5 percent of Catalans voted in favor of the new constitution that created the State of the Autonomies (three points higher than the national average). Results in the Basque Country were the lowest in Spain but still overwhelmingly in favor (64.6 percent in the province of Guipuzcoa, 72.4 percent in Álava, and 73 percent in Vizcaya). Participation was lower in the Basque Country, particularly in Guipúzcoa (43.4 percent) and Vizcaya (42.5 percent), compared to 67.1 percent nationally (Congreso de los Diputados 2021).

3. An acronym for “Euskadi Ta Askatasuna” (“Basque Homeland and Liberty”).
some cases had never had such things (Costa-Font and Rico 2006). But the welfare state did not tamp down regionalist and nationalist contestation in much of the country; instead, it created a politics focused on “who not what”: the politicization of jurisdiction rather than the programmatic substance of policy.

The Spanish federal system created in the early 1980s was more a holding pattern than a stable settlement (Dubin 2019). The central issue on the table during the transition to democracy and the years immediately following was “who”—the definition of the regions and their status as “historical” or “new” regions—rather than “what.” The “holding together” (Stepan 1999) character of negotiations surrounding the Spanish Constitution encouraged the parties to postpone the definition of the regions’ competencies and their funding.

For fifteen of Spain’s seventeen regions, the distribution of funds and competencies across levels of government has been repeatedly revised, with changes largely driven by shifts in the balance of power between national and regional parties. While the pace and scope of devolution have varied over time, large differences in need-adjusted per capita spending across the regions have remained relatively constant. These spending differences predate devolution (Pérez-García et al. 2015), buttressing our claim that federalism alone cannot explain subnational, let alone cross-national, differences in welfare spending.

Spanish federalism is profoundly asymmetrical because two regions, the Basque Country and Navarre, enjoy a separate financing regime (the foral regime) while the other regions do not. Following historical practices reinstated with the return to democracy, each province in these regions (Navarre is a single province) collects all taxes owed in the region (except Social Security contributions) to fund its own competencies. Periodic negotiations with the central government establish the amount owed for services provided in the region. In principle, these regions assume the risk that rapid growth in central government expenditures might outpace the growth in regional tax receipts. For this reason, other regions (including Catalonia) did not press for the model’s generalization during the 1978 Constitutional Convention (Gray 2015). In practice, public finance specialists agree that the negotiated amounts substantially underestimate the real cost of central government services in these regions (Zabalza and López-Labordà 2014). Moreover, these regions, two of Spain’s wealthiest, are exempt from the equalization formula included in the funding system.
for the other fifteen regions. As a result, the Basque Country and Navarre enjoy significantly greater per capita resources.

In understanding what might seem like a serious strategic miscalculation by Catalan negotiating elites, bear in mind that the direct personal incidence of taxes in Spain, for most people, corresponded to the arrival of democracy and the welfare state. Before then, Spain had a very narrow tax base that generally avoided personal income taxes (Gunther, Diamondouros, and Sotiropoulos 2006; Rodríguez and Alvarez 2009: 101). Understanding the consequences of a hypothetical future tax system is hard enough even outside the context of negotiation with centralist parties that were reluctant to afford too much autonomy to Catalonia, which was far larger and more important than the foral regions. Catalan elites might have made the correct judgment that it was safer to bet on the common regime than threaten the negotiations with a demand for a foral regime that might not have turned out so beneficial.

The foral regime today represents a clear and present grievance for the other fifteen communities. Although they may have once rejected this financing model, the Catalans have long demanded the right to collect all taxes within their territory, and it is hard to imagine that many regional governments would now reject such authority (Gray 2016, chap. 7). However, the foral system as now constituted would devastate the national accounts were it to be extended to the other fifteen regions (or even just to one or two of the most populated regions, such as Catalonia, Madrid, or Andalusia) (Zabalza and López-Laborda 2014). The Basque Country and Navarre together represent only about 6 percent of Spain’s total population; Catalonia alone represents 16 percent of the country’s population.

One could argue that that richer regions like Catalonia do indeed have a legitimate collective “interest” with respect to changing the current regional financing system and that the failure of national-level politicians to address these inequities explains the demands for independence that have dominated Catalan (and Spanish) politics over the last few years (Barrio et al. 2018). The reality, however, is far more complicated. Even the most casual observer of European politics will recall the Basque terrorist organization ETA, which emerged in 1959 but refused to put down arms after the transition to democracy. The group’s activists were largely recruited from small towns in the Basque hinterlands. While the independent homeland they demanded included not only the three provinces of the Basque Country but also Navarre and the three Basque provinces in

France, their terrorist activities were largely confined to Spain (Casanova 2007). After years of bomb attacks, assassinations, kidnappings, and the extortion of Basque businesses (in total some one thousand deaths), the group was finally forced to abandon armed struggle and dissolve itself in 2018 (Zulaika and Murua 2017).\(^4\)

The origins of ETA can be located not only in the repression of Basque language and institutions during the dictatorship but also in the historic political economy of the Basque Country. The region’s industrialization was driven by coal and steel. As the epicenter of Spanish heavy industry, the Basque Country was also home to Spain’s first limited liability corporations and commercial banks. As the Spanish state was the largest customer of these businesses, the leading Basque industrialists identified closely with Madrid. The PNV, founded in 1895, attracted the support of the autochthonous middle classes with appeals to Basque racial superiority and a sharp critique of a business elite that filled their factories with immigrants from other Spanish regions and threatened the survival of many traditional firms. ETA’s anti-capitalist discourse and attacks on the region’s economic elite were in many ways an intensification of this cross-class conflict within the Basque Country, one rooted in both material and ideological grievances (Díez Medrano 1995).

While the political movement (both a succession of parties and a relatively successful labor union) that emerged out of ETA remains a force in Basque politics and retains its rhetorical commitment to a greater Basque nation, this crusade has never been fully embraced by the region’s dominant party, the Christian Democratic PNV. In 2004, the PNV leader in the Basque Parliament, Juan José Ibarretxe, narrowly achieved approval for a new regional autonomy statute that opened the door to an independence referendum. The revised statute was widely criticized by other parties in the region, questioned even by some members of Ibarretxe’s own party, and ultimately voted down by the Congress in Madrid (Lecours 2007). Given the limited support for the Ibarretxe Plan in the Basque Parliament and in Basque society, its rejection in Madrid was sufficient to push the issue of independence off the region’s political agenda. When

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\(^4\) ETA emerged out of and was supported by tight-knit communities that had long stymied the combined efforts of the Spanish and Basque security forces. However, recent advances in surveillance techniques and greater cooperation from France after the terrorist attacks of September 11, 2001, overwhelmed these communal walls of silence. The group put down arms in October 2011 and was dissolved totally in May 2018.
the 2008 economic crisis hit, the region’s high level of control over its own finances made it difficult for PNV elites to blame Madrid for their trouble (Gray 2018). Indeed, given the favorable balance of the *foral* financing system, full independence from Spain would likely leave the region worse off financially and hard pressed to maintain, let alone increase, the generosity of its welfare state without a major increase in taxes (Zabalza and López Laborda 2014).

The material and partisan political interests that have for the moment placed a brake on Basque aspirations for independence are quite different from those that historically tied the region to Spain. While some large Basque firms continue to do significant business with the Spanish state, the region’s advanced industrial economy (machine tools, trains, specialty steel, etc.) is now largely dependent on exports. The Basque Country suffered far less than any other part of Spain after the 2008 eurozone crisis not only because of its financing system but also because of its robust industrial economy (Holl and Rama 2016). Where the Basque Country was once materially invested in its relationship with the Spanish state for its market, it is now materially invested in that relationship for its politics.

This reality creates an existential dilemma for Spanish politicians with respect to the regional financing system. For pro-independence Catalan politicians who proclaim that “Spain robs us” (Barrio et al. 2018), the *foral* system looms large as a second-best alternative. However, any central government that looks to extend the *foral* system beyond the Basque Country and Navarre would have to revise substantially the settlements currently in force with these regions in order to manage Spanish finances. Yet doing so would not only entail mass defections of Basque voters from the statewide parties but also encourage PNV and Bildu to put aside their partisan differences and demand the region’s independence.

In the Basque experience lies a clue regarding the evolution of relations between Spain and Catalonia. Both the Basque Country and Catalonia are stateless nations with economies that significantly outperform most other Spanish regions. They both have major nationalist movements that have played a central role in regional, and often national, politics since the late nineteenth century. Together, they represented the most difficult challenge to Spain’s post-Francoist constitutional settlement, and each region’s leaders have faced considerable pushback from the Spanish state in their efforts to expand the reach of their constitutional powers. And yet, if interests have evolved in the Basque Country in a way that has ultimately defused
conflict between the region and the central state, in Catalonia the evolution has moved in the opposite direction.

Like the Basques, the Catalans too developed their own modern political movement in the late nineteenth century. In the 1870s, Catalan lawyers fighting to defend their region’s historic civil code from Madrid’s efforts to impose a single national system sparked a renaissance of Catalan culture that attracted support from a wide swath of the industrial bourgeoisie and the autochthonous middle classes (Jacobson 2009). The principal political expression of these movements during the late nineteenth and early twentieth centuries was the Lliga, a conservative Catholic, monarchist movement whose primary political objective was the protection of markets for Catalan textiles. Because Catalan industry was rooted in textiles, its industrial elite was composed primarily of self-financing family businesses. As a result, they were less closely tied to Madrid and far more regionalist in their outlook than their Basque counterparts (Díez Medrano 1995).

The high and middle bourgeoisie in Catalonia were thus less divided than those in the Basque Country prior to the civil war. This had at least two consequences for politics in the post-Franco era. First, efforts to promote Catalan language and culture were embraced by almost all segments of Catalan society during the transition to democracy. Unlike in the Basque Country, where the center-right People’s Party (Partido Popular, PP) enjoys significant support, the PP has always been a residual party in Catalonia, traditionally attracting the votes of a small segment of the high bourgeoisie and elite civil servants from other parts of Spain. Similarly, during the transition to democracy, progressive segments of the Catalan high bourgeoisie gained control over leadership of the PSC (Socialist Party of Catalonia), the Catalan partner of the Spanish Socialist Party. As a consequence, the PSC was strongly supportive of “Catalanization,” even though most of its voters were either immigrants from other parts of Spain or their children (Miley 2013). Second, although this is more tentative, this apparent unity around the question of regional identity is likely to have contributed to the lack of social support for the Catalan version of ETA. Created in 1978 and dissolved in 1991, Terra Lliure copied ETA’s

5. The PSC leadership was able to convince its base to support linguistic immersion by arguing that learning Catalan was key to their children’s social mobility. This was a reasonable argument, as their bosses overwhelmingly spoke Catalan. Basque was at once a much harder language to learn and less widely spoken. Moreover, the racialist dimension of Basque nationalism was more overt than its Catalan counterpart.
mix of exclusive nationalism and revolutionary socialism but managed to kill only one person and never gained any base of popular support (Muro and Vall-Llosera 2016).

Catalan and Basque nationalist parties have been able to advance their interests by providing legislative support for both Socialist and Conservative minority governments. During these periods of minority government, the conservative nationalists (PNV and what was then CiU in Catalonia) obtained new competencies, central government infrastructure investments in their regions, and some degree of voice over Spanish fiscal and regulatory policy (Field 2016). In 2004, the Socialist government of José Luis Rodríguez Zapatero pledged its support for a new autonomy statute (regional constitution) for Catalonia. In June 2006, the new statute was approved by referendum in Catalonia by over 73 percent (although only 49 percent of the electorate came out to vote).

The Socialists, the most evenly distributed statewide party and the one that depended on Catalan votes for any Spain-wide majority, consistently sought to preserve a multinational Spain. The PP, meanwhile, never performed well in Catalonia (though it once did well in the Basque Country) and opted for an overt strategy of polarization, promoting Spanish nationalism against first Basque and then Catalan nationalists as a way to undermine the Socialists in both Spain and Catalonia. Since the Socialists were the party of multinational coexistence within Spain, refocusing politics on nationalisms was a common interest of nationalists, including the Spanish nationalists of the PP and the Catalan nationalists. A shift of focus onto nationalism helped the PP overcome a general reticence in the Spanish electorate with regard to its economic and social policies (Rodríguez and Alvarez 2009: 129–33).

The PP opposition appealed to the Spanish Constitutional Court, which, in June 2010, narrowly interpreted or declared unconstitutional a number of clauses, including the declaration on Catalan nationhood, the obligation to learn Catalan, and changes in the regional financing system. The multitudinous march organized in response was led jointly by the then president of the Generalitat, the Socialist José Montilla, and Ominum, a civil society organization dedicated to the promotion of Catalan culture. In December 2010, Artur Mas of CiU captured the Generalitat in the second round of voting with the abstention of the PSC and votes against from all the other parties in the Parliament, including the other Catalan nationalist formations. While Mas set the right to self-determination as a

goal of the new legislature, he also noted in his acceptance speech that the process of national construction was not for the impatient. In fact, CiU’s election campaign had focused squarely on the crisis and the previous tripartite government’s performance (PSC—ERC-IC-V) (Rico 2012).

The new Mas government’s first priority was a radical cutback in health and education spending to address the largest deficit among the ACs. These cuts served as an excuse for enormous protests on the radical left, including a siege on the Catalan Parliament building that involved attacks on some deputies and the arrival of thirty-two representatives by helicopter in order to debate the regional budget in June 2011. Several days later the budget was approved with the abstention of the PP (in exchange for eight specific measures, mostly cuts) and the votes against from all other parties in Parliament. The 10 percent cut in total spending was the first net reduction in the Catalan budget in the region’s democratic history, but it still left a deficit of 2.66 percent, double the 1.3 percent permitted by the central government.

Anxious to deflect blame for these cutbacks, CiU put its demands for a new fiscal pact with the central government (rather than a call for independence) at the center of its platform for the November 2011 General Elections. The somewhat ambiguous proposal sought a reduction of Catalonia’s contribution to the various interregional solidarity funds by 50 percent and greater regional control over tax collection during the renewal of the regional financial system scheduled for 2013. However, when the PP won the General Elections with an absolute majority, CiU’s ability to leverage its legislative support to obtain significant changes in the regional financing system was dashed.

9. Shortly after the election results were clear, the leader of the coalition’s Christian Democratic partner, Josep Antoni Durán i Lleida, declared that failure to achieve the fiscal pact would not be a disaster for the coalition (“El pacto fiscal se aleja de Cataluña,” El País, 22 November 2011, 2–3). Several days later, the regional government’s spokesperson countered ERC criti-
From this point, the combination of economic crisis (which hit Catalan finances particularly hard) and strategic calculations by party leaders in Catalonia and Madrid began to shift agendas toward both Catalan and Spanish nationalism. This approach by political leaders deflected attention from economic failure, seriously damaged the Socialists, and reframed political liabilities such as austerity and deficits, but it had very high political stakes. It also meant that the new territorial interests of Catalonia, the public sector, found its politics reshaped by an unprecedented level of emphasis on nationalism.

CiU voted against Mariano Rajoy’s investiture, but it was the only party to support the Rajoy government’s €15 billion budget measures (tax increases, spending cuts, and a public salary freeze) in January 2012. In February, the Mas government reached a ten-point agreement with the Catalan branch of the PP to support its regional budget; in March, CiU (and the Basque PNV) agreed to abstain in the vote for the central government’s budget ceiling for 2012, claiming they did so out of a sense of responsibility; in April, CiU supported the Rajoy government’s budget stability law and its tax amnesty; and in June, it supported its labor market reform, the most significant liberalization of labor market rules since the transition to democracy.

The budget stability law created a mechanism enabling the central government to take control of the budgeting process in CAs that failed to meet deficit objectives but also included a CiU amendment allowing CAs that meet the 2020 deficit objectives to extend over twenty years the amortization of their debt (Martín 2012). CiU’s willingness to support the PP’s absolute majority in exchange for benefits eight years into the future strongly suggests that independence was far from an absolute priority for the conservative nationalists.

However, generational changes from within and competition from other nationalist parties and civil society organizations drove the party

to adopt almost unanimously the goal of independence as official policy at its March 2012 party conference.\textsuperscript{11} This effort to shift attention away from CiU’s support for the PP’s austerity measures—the same PP that had denounced before the Constitutional Court the aspirational language in the 2006 reform of the Catalan statute—and corruption scandals that would destroy the reputation of Jordi Pujol (the party’s historic leader) and his family failed to salvage CiU’s traditional position as the dominant party among the regional nationalists. Instead, it broke the long-standing alliance between Convergencia (Convergencia Democrática de Catalunya) and its smaller Christian Democratic partner Unió (Unión Democrática de Catalunya) (Barrio 2017).

Austerity, the PP’s Spanish nationalist rhetoric, and increasingly dissident voices from within the Catalan nationalist community contributed to a major shift in Catalan identity politics in 2012: there was a sudden increase in the percentage of Catalans who identified exclusively as Catalans (i.e., did not identify at all as Spaniards) and a rapid decline in the percentage who felt equally Spanish and Catalan. While the crisis had a significant negative impact on confidence in institutions across Spain, no such shift in identity occurred in the Basque Country or any other AC (Barrio and Rodríguez-Teruel 2017). On Catalan national day (11 September) in 2011, as in 2010, unified marches incorporating representatives of all the parties represented in the regional parliament attracted crowds of about ten thousand people, similar to turnout in earlier years. A year later, hundreds of thousands (by some estimates more than a million) of people would show up to support the “right to decide,” led by civil society groups (in turn led by people with close ties to CDC and the Republican Left of Catalonia, ERC) and without the participation of the “constitutionalist” parties, PSC, PP, and Ciutadans. Shortly afterward, Mas would reiterate his demand for a new fiscal pact with Rajoy. Rajoy’s rejection gave Mas the pretext to convene early regional elections. Although his efforts to unite all the now pro-independence parties on a single ticket would be rejected by ERC, the post-electoral pact between CDC and ERC was sealed with a Declaration of Sovereignty during the first legislative session (Barrio and Rodríguez-Teruel 2017).

This referendum was rejected by the non-nationalist parties in the regional parliament (including the PSC) and declared illegal by the central government and the courts. Several Catalan politicians were found guilty of charges of sedition and misuse of public funds for their roles in holding this 2017 referendum, and the president of the regional parliament at the time, Carles Puigdemont, went into exile in Belgium.

Why was it ultimately the Catalans and not the Basques who refused to back down from their aspirations for independence when threatened by a state veto? The answer is not to be found in the regions’ relative dependence on the broader Spanish economy. Nor is it to be found in relative differences in the degree to which citizens from each region would benefit from independence. The key factor distinguishing our two cases is that the financing system for the Basque Country forces regional nationalists to take much greater responsibility than their Catalan counterparts for the ways they manage policies (and, particularly, budgets). Like all regional politicians in polities with contested competencies, the Basques would like to expand the range of policies over which they can exert their authority. However, unlike the Catalans, they have long had to take seriously the consequences of poor governance. For the Catalan nationalists, like politicians in the fourteen other ACs participating in the Common Financing Regime, soft budgets and weak accountability have encouraged them to focus more on “who” controls policy than on “what” they do once they have taken on a new competency. The “interest” motivating Catalan nationalists and, indeed, politicians across most of Spain is simply more authority.

The salient characteristic of modern Spanish welfare politics has been the emphasis on who not what. The politics of who not what mean that the salience of substantive issues such as equality or levels of service is reduced compared to the question of which governments will be responsible for taxing, spending, and providing. The Catalan debacle is the most extreme version of this politics, with a society in grave economic and social difficulties driven to new heights of territorial political tension. This is in contrast to historical grievances, which were very much all about the what—tariff protections, protection of the civil code, the culture. While the culture and the finances are often the argument, the actual protagonists are politicians who can instrumentalize the clerisy’s interest in cultural reassertion. Spanish responses to the COVID-19 pandemic reflected the same approach, in which competencies were trophies rather than responsibilities. This led to
tardiness in activating weak institutions of intergovernmental coordination and a quick relapse into partisan intergovernmental blame allocation (Dubin 2021).

It is unquestionable that the Spanish state’s failure to incorporate (or destroy) Catalonia’s distinctive political economy and national identity led to the tensions today (Elliot 2018), in which a distinctive set of Barcelona interests (Jordana 2019) is overlaid by interacting Catalan and Spanish party systems that encourage destructive polarization. But today, the economies of the different parts of Spain, or most other rich countries, are much more similar. The reasons for territorial conflict, if they are to be found in interests, are to be found in interests that are often endogenous to the political system and welfare state.

Conclusion

Interests are not necessarily, or even usually, territorial. Something like the labor-coercive agriculture of Andalucia or South Carolina in 1930 is perhaps the single most common case of a modern relationship between a regime, decentralized governments, and the national government, and it shows the limits of federalism when it turns out that labor-coercive regimes require a degree of support from outside that is not always forthcoming. Authoritarian enclaves cannot just be left alone. They need support from the rest of the country, and its withdrawal is a trigger for tremendous conflict (Gervasoni 2018; Gibson 2013). Equally, so long as these labor-coercive regimes exist in authoritarian enclaves that necessarily manipulate broader politics, they are a problem for democratic stability throughout the country. “Subnational democratization is likely to be a centralizing phenomenon” (Mickey 2015: 17), a finding that is not just applicable in dramatic cases like the U.S. South, Spain, Italy, or Ireland but that can also be read in other stories of state building and democratization.

Outside such cases, there are fewer interests that are geographically concentrated and are linked to the fate of a regional government (even resource-extractive industries, which are usually concentrated in specific places, tend to need the support of all governments). Thus, for example, it is possible to read the Catalan nationalist saga as being a distorted version of the competition between the global cities of Madrid and Barcelona, just one distorted by its incorporation into older nationalist and insti-
Institutional forms (Jordana 2019). The problem with such a thesis is that in increasingly homogeneous countries, it is far from clear that, if cities have intelligible collective political interests, those interests are represented by the polarizing PP and Catalan nationalists, just as it is far from clear that American state politicians reflect the interests of the cities that constitute so much of their states’ economies (Rodden 2019). In modern Europe, they are often in the public sector and often found in stateless nations. This is a crucial change. Instead of territorial interests emerging as a result of economic disparities, we see territorial and even organized national interests emerging as a result of territorial politics themselves, as in Spain. And instead of territorial conflict as a result of distinctiveness, it can also be a territorial manifestation of national tensions, as in the United States.
CHAPTER 4

How Policies and Legacies Matter

Most of the comparative literature on federalism and public policy focuses on political institutions in the narrow sense of the term, which we discuss in the next chapter. Yet, as students of public policy know, policies are not made with clean slates—not ever and certainly not in today’s complex and developed welfare states. A focus on explaining decisions sometimes takes our attention away from the extent to which existing welfare states set a context and narrow down the problems and solutions on a political agenda. Historical institutionalist scholars have shown the importance of policy feedback, which is how existing policies shape politics over time (e.g., Pierson 1993, 2004; Hacker and Pierson 2019). Legacies of policy decisions taken long ago, such as the decision to opt for social insurance or tax-financed models of provision, shape policy options today (on policy feedback, see also Béland and Schlager 2019; Jacobs and Weaver 2015; Skocpol 1992; Michener 2019; Niedzwiecki 2018). The allocations of authority and responsibility across levels of government, already existing, also shape what is possible. Finally, and for many most importantly, the allocations of revenue-raising options, responsibilities, and money are important and inherited constraints. Any of these decisions can be explained, but they also explain. This chapter brings the analysis of policies and policy legacies, topics that are a large part of research in public policy and political development, to the forefront of comparative federalism.

Policies are not only the way that we observe federalism in action; the accumulation of policy legacies is also much of the federal system that we observe. It is conventional in comparative federalism to start with constitutions and political institutions such as presidentialism, bicameralism,
and constitutional grants of authority and only later to discuss the structure of policies. The implicit argument is that the constitution and key political institutions are antecedent to policies and help to explain them. Yet, the reverse is often true and is especially so in understanding federalism. Policies—and politicians’ efforts to make policies—can reconfigure or give meaning to constitutions. Constitutions often do not specify many of the key issues of federalism and policy making, and the actual implementation and evolution of those constitutions happen in concrete policy decisions. Furthermore, there is a timing issue in explaining institutions outside their policy context. Explaining the operation and impact of a given political institution now, after the development of the modern state might have transformed it, is not the same as explaining its operation and impact when that state began to emerge.

The United States, for example, has undergone two major constitutional transformations with very little change to the written document, in the post–Civil War Reconstruction amendments and in the development of the modern administrative state that began with the New Deal. The former involved three amendments and a hard-fought transformation of citizenship and rights; the latter involved no amendments and instead involved a transformation of public administration that enabled a regulatory and welfare state to emerge. It was public administration, spending, and administrative law, not branches of government, that transformed the United States (see, e.g., Tani 2016). In Belgium, one of the few cases of thoroughgoing decentralization of an established welfare state, the programmatic designs and policy decisions of an older country with very different cleavages and territorial politics shape today’s politics, which are often about precisely whether and how to reconfigure those policy legacies. It requires imagination to envision Belgian political debates except in the context of an existing state and an entrenched social insurance model welfare state (Béland and Lecours 2008). Italy furnishes one of the most extreme cases of a system in which territorial politics interact with law to produce “self-decelerating mechanisms” within reforms that “deferred decision making, required varying levels of consultation, and ensured time delays” to an often extraordinary degree (Lynch and Oliver 2019: 106). These legacies can hold even after major regime changes and in the face of major policy initiatives from central governments. Consider the example of day care in Western Europe, a policy area that is crucial for labor markets, gender equality, and investment in children. When EU govern-
ments began to invest seriously in day care, they revealed major territorial
differences. In Germany, eastern Länder were eager to expand day care,
which had been extensive under the Communist regime, and western ones
resisted. In Italy, likewise, the urban industrial north’s governments were
far more enthusiastic about widely available day care (Oliver and Mätzke
2014). In other words, the actual resources and constraints on policy mak-
ing, including the realities of finance, capacity, and authority, are better
understood by starting with policies rather than with constitutions.

The following chapter discusses the policy legacies that, as fruit of
federal politics at one time, constrain and in fact constitute politics later:
programmatic structure, allocation of authority, fiscal systems, and state
capacity. Given that there are no clean slates in social policy, and there
certainly are none in today’s developed welfare states, these accumulated
legacies, with all their diversity and internal contradictions, amount in
practice to key constraints, allocation of authority, and financial systems of
welfare states today. They create veto points not visible in a look at formal
political institutions and reduce the importance of other veto points that
might look important on paper.

We treat them not just as functions of institutions, which is conven-
tional in the literature on federalism, but as institutions in themselves, key
components of each case that cannot be understood simply by reading
constitutions. This chapter deliberately blurs the clear distinction often
made between formal institutions and policies (and sometimes between
formal institutions, policies, and finance).

Put another way, a government’s leadership is constrained by and tries
to shape their “domestic” politics, including party systems, agenda-setting
mechanisms, and policy decisions as well as the formal political institu-
tions of the state, such as constitutions. Yet, policy makers are also con-
strained by an accretion of policies that shape interests and options. Not all
issues are on the table, not all options are available, and as the durability of
many policies in twentieth-century Europe shows, sometimes policy lega-
cies or state capacity can live through dramatic regime changes that sweep
aside formal institutions but leave social policy administration or financial
arrangements substantially intact.

Thus, for example, the legacy of a tax-financed health system in Spain
meant that by the mid-1980s a variety of social insurance options were
costly overall and to most of the interests involved in health politics. The
politics of Spanish health policy focus in large part on regional authority in
health care, ending with a very substantial regional role, rather than on the basic desirability of a tax-financed system agreed to decades ago. By contrast, in social insurance countries such as Austria, Belgium, and Germany, the autonomy of the social insurance funds has made breaking them up a very tough project (Béland and Lecours 2005, 2018; Laible 2013, 2019) and has kept them remarkably low-profile in the territorial politics of other countries, as we argue here and others argue elsewhere (Trukeschitz and Riedler 2019; Mätzke 2013; Mätzke and Stöger 2015).

The occupational logic of social insurance, which is largely corporatist and often called “guild based,” and the entrenchment of contributions and rights as well as organizational entities in law all mean that regionalization of social insurance models is often barely on the agenda (and in Austria, the recent movement has been to centralize it) (Falkenbach and Heiß 2021). The 1980s decision to put all of Spain on the track to a national health service system helped trigger a politics of “who not what” focused on what regional governments would do to deliver services. The legacies of social insurance in Belgium made it politically and practically difficult for even spirited nationalist politicians to take on a unified federal social insurance system. Within the United States, the politics of Medicare and Medicaid are quite different, in large part because Medicare is a federal social insurance program while Medicaid is a joint federal-state program, with state participation that creates a stress on state budgets and makes it a candidate for proposals to, for example, turn it into a simple block grant that the federal government can cut (Béland, Rocco, and Wadden 2016).

As we suggest in this chapter, policy legacies work through four constitutive effects that public policy creates over time within federal systems: programmatic design (the impact of policies on both politics and available policy options later), allocation of authority (which governments can and are obliged to do what), financial arrangements (the interaction of taxing and spending powers with intergovernmental transfers), and state capacity (the ability to implement a government’s decision). In each case, we speak not of a formal political institution but rather of historically constructed constraints and opportunities for reform as well as constitutive effects created by policy decisions of the past (Jacobs and Weaver 2015; Tuohy 2018). This requires an understanding of programs. Data such as the percentage of regional government income that comes from taxes versus intergovernmental transfers, for example, is not very meaningful without understanding the interaction of such numbers with the programs.
that constitute them—the conditional grants, the spending rules, the limitations on different tax bases, the obligatory expenditures, and the hidden subsidies within programs. The constitutive effect of past policies works by shaping policy options and problems, both today and tomorrow.

Programmatic Design

Once implemented, policies shape politics of social policy over time. Much has been written about the fact that “policies create politics” (Pierson 2004; Hacker and Pierson 2014; Schattschneider 1935), and this reality is as present within federal systems as it is within unitary states (Obinger, Leibfried, and Castles 2005). What is important from the perspective of federalism is whether and how existing federal and subnational policies are likely to create vested interests and shape future policy developments. For example, in Canada, it is impossible for the federal government to reform the Canada Pension Plan without the explicit consent of at least two-thirds of the provinces representing at least two-thirds of the country’s population (Banting 2012). This type of policy, which Keith Banting, echoing Sharpf and Mayntz, refers to as “joint decision federalism,” explicitly shapes future politics by allocating a nonconstitutional veto point to substate units (Scharpf 1988; Banting 2012).

In the United States, the decision to adopt a purely federal old-age insurance program (known today as Social Security) has had a lasting impact on the development of this policy area compared to other components of the welfare state such as unemployment insurance, which has remained much more fragmented (Béland 2005). After 1945, Social Security emerged as a powerful tool for federal social policy expansion that became increasingly popular and that stimulated both interest group mobilization and the electoral participation of older Americans, especially lower-income ones (Campbell 2003). Simultaneously, the existence of this large federal program led to the emergence of a dedicated federal bureaucracy that advocated for the expansion of Social Security alongside interest groups such as labor unions (Derthick 1979). In sum, the decision of the federal government to enact a centralized old-age insurance program in 1935 is the source of long-term “lock-in” effects that make it harder for opponents to dismantle this program, in contrast to other, less centralized policy areas such as welfare, in which conservatives have been much more
successful in their attacks against the welfare state (Pierson 1994; Weaver 2000). Even if there is still legitimate debate about how much the politics of blame avoidance actually explains the persistence of welfare state programs, the fact of their persistence is well documented. It is the extent to which they change with the times that is now the focus of much of the scholarship on “lock-in” and legacies (Hacker 2004).

Policies of another type that can have a very different effect on future welfare state politics in federal countries are national social insurance systems created before or largely independently from federalism. Typically directly involving social partners such as employers and labor unions, these fragmented social insurance systems may not be understood as territorial in nature, as is generally the case in Austria and Germany, where social insurance is seen as belonging to an occupational rather than a territorial logic. Historically, in these countries as well as in pre-1970 Belgium, the political debate about the fate of social insurance was not primarily about territorial issues but about which, and under what conditions, occupational groups should gain coverage (Baldwin 1992). In the case of Belgium, starting in 1970, the federalization of the country and the related splitting of political parties along linguistic lines have created territorial pressures on an occupational, yet national, social insurance system created long before the country became federal. In this case, it is the very logic of federalism that clashes with existing—territorially centralized—social insurance policy legacies to create a contentious political debate over the future of social and territorial solidarity in Belgium (Béland and Lecours 2008).

Policy innovations enacted at the subnational level can come to shape federal welfare state politics (Béland, Rocco, and Waddan 2016). For example, the enactment of the so-called Romneycare health insurance reform in Massachusetts in 2006 had a direct impact on debates leading to the enactment of the federal ACA four years later (McDonough 2011). Even more strikingly, in Brazil, the large federal conditional cash transfer known as Bolsa Familia built on subnational policies enacted by municipalities, which have a distinct constitutional status within that country’s federal system (Fenwick 2016). These two examples do point to the reality that subnational experiments can act as “laboratories of democracy” that may shape future federal policies. Bolsa Familia, once constituted, turned into a powerful tool for federal governments to use a mixture of policies, finances, and law to shape Brazilian local and federal governments’
options, effectively turning them into social service providers (Arretche 2013; Fenwick 2016).

How, then, do policy legacies shape welfare states? First, there are the designs of the policies themselves, for example, social insurance models (which have shaped the U.S. federal welfare state as well as the more classically “Bismarckian” systems). These shape future politics through all the mechanisms of path dependency. Second, there are the policy feedbacks themselves, which can shift programmatic design as well as politics. Policy feedbacks among voters can exist in which policies effectively bind voters to a party out of gratitude or a desire to defend benefits, and political scientists eagerly note evidence of it in public opinion, but it seems more likely that effective policy feedbacks happen among elites who have the time and expertise, and concentrated benefits, to understand policy mechanisms and mobilize supporters if need be (Galvin and Thurston 2017, 2020; Greer, Lynch, et al. 2021).

Programs shape expectations and behaviors across society as actors, from firms to people to governments, change their actions as well as their understandings of what a policy “is.” At the most basic level, this dynamic simply manifests itself in the perpetuation of an established policy regime or a limited set of alternatives. So, for example, in Germany it is understood that the principle of social insurance (individual contributions to social funds) is alien to the principle of territoriality (Mätzke 2013). A practical, immediate effect is that there is remarkably little data on the territorial distribution of finance and expenditure in major social insurance countries such as Austria, Belgium, and Germany (Greer and Elliott 2019). The literature focuses on social insurance financing for office and hospital visits rather than the coordination and capital investment where regional governments are more likely to matter. A broader effect, though, is that territorialization and possible decentralization of the welfare state reach further in countries with tax-funded provision as a key part of their systems; regional governments matter much more and spend much more on health in Australia, Canada, Spain, and the United Kingdom than in Austria, Belgium, or Germany. Within countries, this logic plays out in welfare programs at a fairly detailed level; in the United States, states matter more in Medicaid than in social insurance Medicare (by definition), and the most overt territorial partnerships in Austrian social policy are outside its extensive social welfare areas (Trukeschitz and Riedler 2019). When American health reformers argue about the relative merits of social
insurance Medicare and federal-state Medicaid, they are arguing about two quite different programs and models of policy.

Simultaneously, comparing policy legacies within the same policy area across different federal countries is helpful to grasp the factors that can either constrain or empower elected officials. For instance, after the onset of the COVID-19 crisis, Canada responded more rapidly and effectively than the United States to the sudden rise in unemployment stemming from public health restrictions, in part because the federal government is in charge of unemployment insurance (UI) in Canada but not in the United States, where UI benefits are paid by the states. The greater fragmentation of UI in the United States created a more disjointed and slower, less effective social policy response there than in Canada, where federal control over this policy area made it possible for the federal government to enact the Canada Emergency Response Benefit, a massive yet temporary program to help workers who had lost income because of the pandemic. This temporary program operated alongside the permanent federal Employment Insurance program, reducing bureaucratic delays by sending checks to applicants before verifying their eligibility (Béland, Dinan et al. 2021; on the United States, see also Rocco, Béland, and Waddan 2020). With fifty state bureaucracies leading the response to the explosion of unemployment in the United States driven by COVID-19, economic victims of the pandemic were at the mercy of state responses. These varied widely, depending on the politics of the governors as well as the state capacity they inherited. That state capacity was a legacy of previous political decisions (e.g., choosing to build low-capacity unemployment insurance application systems that were difficult to use and deterred people from claiming).

Second, welfare states shape states via policy feedbacks. There are policy feedbacks built into any policy choice that will empower some actors and groups politically—from the mass level, where program beneficiaries will often engage more in politics, to elite levels, in which particular interests, people, or institutions will gain something from a given distribution of authority (Pierson 1993). In Spain, decentralized public sectors became key parts of politics, with employees and interested politicians fueling demands for a decentralization of policy-making authority as the country built both its welfare state and its federation (Dubin 2019). With central and regional government actors engaged in a long-running struggle for control over discrete welfare policy areas, little attention has been paid to innovation in content, particularly with respect to the creation of new
policy areas. For example, the Spanish central government has jealously guarded control over the pension system, which was historically a contributory system. While noncontributory pensions have been added over the years, particularly for the elderly, those for working-age people and children have been left to the regions. Except in the Basque Country, regional political leaders have dedicated few resources to these programs, contributing to a rapid increase in the percentage of children living in poverty as traditional family safety nets weakened. Similarly, the central government delegated the delivery of active labor market policies to the regions while retaining significant responsibility for overall policy design; as a result, innovation has been quite limited, despite the country’s historically high levels of unemployment and underemployment (López-Santana and Moyer 2012). One problematic consequence of this “who not what” focus is that Spain has almost no culture of rigorous policy evaluation at either the central or the regional level (Onrubio-Fernández and Sánchez-Fuentes 2019).

Allocation of Authority

Constitutions are a somewhat limited guide to the allocation of responsibilities in federal systems since they are inevitably living documents rather than blueprints. Thus, for example, the U.S. Constitution, which dates to the late eighteenth century and is very hard to amend, offers no discussion of a welfare state. The contemporary U.S. welfare state is built around the federal government’s powers to regulate interstate commerce and its spending powers. Much of Canada’s welfare state was justified by a commitment to “peace, order, and good government,” hardly a detailed specification. Only the United Kingdom and Belgium have set out to craft decentralization schemes after developing mature welfare states, though regionalization in Spain was clearly designed by actors who expected to be building a more universal welfare state. In Belgium, there has been a transition from a centralized unitary state to a quite decentralized federation in the context of a process meant to have no specific endpoint. Most Flemish parties view Belgian federalism as dynamic and seek further autonomy for Flanders. Although Francophone parties do not share this position, a refusal to negotiate any decentralist reforms presents the potential danger of stimulating Flemish nationalism and encouraging more radical self-
determination claims. Hence, there have been six Belgian state reforms in approximately forty years. In Spain, the so-called historical regions’ demands for control over their educational and health systems gave rise to an asymmetrical decentralization process after the return to democracy. However, because the new constitutional structure created regional governments across the entire national territory and not just in those areas with a history of self-government, political entrepreneurs in these other regions were quick to press ultimately successful demands for an equalization of competencies.

Elsewhere, welfare states grew at the same time as the mandates for and particular shapes of federal governments. Sometimes there is no clear mandate, and instead the roots of the intergovernmental allocation of authority are to be found in fiscal policy, discussed in the next section. In Australia, for example, states lost their capacity to levy sales as well as income and corporate taxes because of High Court decisions, rendering them almost completely dependent on federal transfers. This process of fiscal centralization corresponded with a significant centralization of social policy beginning in the 1940s (Fenna 2018; Brenton 2019). In postwar Canada, the federal government took over all personal and income taxes as provinces “rented” their fiscal space in exchange for unconditional per capita grants. At the same time, the federal government negotiated constitutional amendments with the provinces in 1940 and 1951 to run unemployment insurance and old-age pension programs.

Looking at welfare states around the OECD, a rough pattern conforms to the expectations of fiscal federalism scholars (Greer and Elliott 2019). Fiscal federalism’s policy advice suggests that governments should pool risks at the highest (largest) level possible and deliver services at the lowest (smallest) level possible without problematic externalities. Thus, the optimal design for sustainable welfare states would put big intergenerational, redistributive programs such as pensions and health-care finance at the central, federal level while charging regional or local governments with organizing provision of services such as active labor market policies or primary health care in light of local problems and preferences. The result pools social risks while encouraging competition in investment areas such as education. In many cases, particularly outside Europe, conditional grants provide the blend, giving local and regional governments money to carry out particular tasks. This basic logic is why classics of fiscal federalism (Oates 1999, 2005) and federal welfare state analysis (Peterson 1995) hold
so well. A summary, in highly abstracted form, of the findings of our work (Greer and Elliott 2019) is as follows:

- Health-care expenditure is financed at the highest level through combinations of nationally organized social insurance schemes (e.g., Germany), federal health expenditures (e.g., United States), or fiscal systems that underpin regional responsibilities that include health (e.g., Switzerland, Spain).

- Health-care provision is organized by regional governments, whether in directly running National Health Service (NHS) systems or in providing frameworks for the building and administration of services.

- Education expenditure for children under age sixteen is financed locally or regionally, with some compensating federal schemes that aim to equalize education inputs or promote certain kinds of policies.

- Education provision for children under age sixteen is almost always local or, if education is not provided by governments, is regulated by regions and subsidized by them or local governments in some way.

- Higher education finance is increasingly shifting from regional governments, which financed them as a sort of public good, to federal governments, which support research, and individuals, who are investing in their own future, typically with publicly subsidized loans. This trend is not universal, and some countries and jurisdictions continue to have essentially free universities supported by regional governments. In every case, higher education delivery is by universities with some level of autonomy, many of which are regulated federally but in some way accountable to regions. Local governments rarely have the money to sustain a university but might still play a role in other elements of further education.

- Benefits and transfers for ages sixteen through thirty-five are a diverse category that is hard to characterize even within a single country. They have been the object of much reforming energy in many countries, with active labor market policies pitched as a way to address unemployment, often mixed with “workfare” schemes that restrict entitlements to welfare for the working-age
population. Nonetheless, it seems that the line that fiscal federalism would expect is drawn through them, with services provided locally but an element of federal (or federal-level social insurance) risk pooling in the financial system and some harnessing of intergovernmental competition at the subnational level as incentive for local and regional governments to make programs more economically viable.

This functional logic does not *always* hold. There are four major categories of exception (see also Adolph, Greer, and Massard da Fonseca 2012). First, stateless nations, once again, tend to have more authority and autonomy than comparable jurisdictions. Some, notably the Basque Country (and Navarre) and Quebec, enjoy particular freedom born of considerable financial resources (Levine 2010; Dubin 2019). The explanation of these asymmetries—or of cases such as Spain, where the result is unusually broad powers in a specific area for all regional governments—is simply that these multinational states are shaped by the “staying together” imperative. Comparing Canada to Australia, for example, shows how much more centralized Canada might be were federal leaders not constantly faced with issues of multinational state management that are frequently resolved through extensive power for provinces (Bélard and Lecours 2008).

Second, there are also particular political theories built into programs about what kind of organization, financing, and allocation of authority will make them sustainable. Thus, for example, making disability insurance schemes federal or regional can have different consequences for their sustainability. In the United States, unemployment insurance schemes are run by states and are vulnerable to both state finances (often requiring federal loans in recessions) and state politics (such as cuts and administrative burdens made by Republicans who view them as welfare rather than insurance schemes) (Herd and Moynihan 2019). By contrast, social assistance for peoples with disabilities, Supplemental Security Income, is federal, and while that might theoretically produce some possible inefficiency, it is far more politically stable and sustainable because of the link to a federal social insurance program (Erkulwater 2006; Berkowitz and DeWitt 2013). Disability schemes everywhere tend to collect people who have experienced economic misfortune, often because their labor market and unemployment experiences contributed to ill health, but the greater
generosity and more stable requirements of the federal programs might also help to explain their importance in the United States.

Third, conditional grants are another form of program theory, in which federal governments induce regional governments to start spending on a program with the offer of shared financing. In what federalism researchers call the flypaper effect, the federal government will then often withdraw its financing, leaving the regions to pay for politically popular new expenditures (Hines and Thaler 1995). Perhaps the most popular teaching example is the United States’ age for legal drinking, which is an unusually high twenty-one. The federal government cofinanced the construction of its extensive freeway network, leading to state transport department dependence on federal funds. A social movement, Mothers Against Drunk Driving (MADD), persuaded the federal government to link eligibility for highway funds to a drinking age of twenty-one. Caught between a social movement and a powerful fiscal incentive, states complied. However, conceivably, they might have been able to gain more tax revenue from alcohol sales than they lost in federal funds had they ignored the mandate and foregone the funds. In a nice illustration of the limits of a pure institutionalist analysis, the evidence is that this is not just a case of the flypaper effect; MADD was an important, sophisticated, and sympathetic interest group at every level of government, influencing state politics through other channels besides federal highway financing in support of an approach to drunken driving that focused on individual behavior rather than, for example, walkable urban planning or public transport (Fell and Voas 2006; Marshall and Olseon 1994; Yu, Jennings, and Butler 2020).

The flypaper effect is a particular instantiation of what scholars of federalism and public policy know well, which is that changing operating programs is hard and overtly taking away benefits is harder. Even when the original program’s ambition is scaled back, as with Canadian federal support for provincial welfare states, the programs will often live on as conditional grants with a federal role that might be redistributive but has no clear justification in fiscal federalism. This model can be an effective way to create and maintain a welfare state; the Canadian welfare state is arguably built on repetition of this exercise (Tuohy 1992, 1999; Maioni 1998). Programs to do with housing, urbanism, day care, or community development often have this characteristic of a somewhat underfunded conditional grant that lives on as a legacy of a federal policy priority.
The fourth exception is that programs that are hard to characterize as risk pooling can come to be seen as national investments—so elements of education, in particular higher education, can benefit from federal-level schemes on the grounds that education and research are goods that benefit the whole country and whose spread should be encouraged. This distinction is crucial for theories of fiscal federalism that posit that investments, whether education or new infrastructure, are best made by local governments with incentive to compete, while redistribution and social insurance should operate on the largest possible scale in order to reduce problematic externalities and pool risk (Boadway and Shah 2009). Peterson’s key empirical contributions were precisely in finding that this is the case if education is regarded as an investment (1981, 1995). This can seem like an abstract debate, but it is also a key part of political debate—a program that can be portrayed as social investment is less politically vulnerable than one that looks to economic policy makers like consumption (Hemerijck 2011). Indeed, it seems that across the rich world’s welfare states there has been a gradual shift toward programs targeted at people under age sixty-five, one most pronounced in the countries that previously had the greatest share of expenditures on people over age sixty-five (Greer, Lynch, et al. 2021; Lynch 2006).

These points refer to taxation and spending. The interaction of federalism with hidden welfare states is even more formidably difficult to study. Hidden welfare states refer to welfare benefits that are made invisible by being included in, above all, tax codes (Mettler 2010; Morgan and Campbell 2011; Howard 1999). These are best documented in the United States, where housing policy is overwhelmingly an affair of subsidizing mortgages for the better-off, but they exist elsewhere and can make housing a substitute for welfare states. We see them in various forms of nonprofit complementary health insurance that allow people in erstwhile NHS systems such as those of Spain to receive primary and secondary (e.g., maternity) care in nicer settings with a tax subsidy through nonprofit insurers. These are usually federal-level policies, which might be in part due to intergovernmental competition to attract people who would benefit or to keep revenue from such taxes.

One of the most illustrative examples of how these limits work together can be found in the Spanish welfare state and the woeful failure of its labor market to create minimally adequate employment opportunities for a significant part of the population (Lopez-Santana and Moyer 2012). An
active labor market policy entails labor market intermediation by the state to improve labor markets on the supply side or by resolving mismatch job training or other personalized support for the working-age unemployed. It is different from “passive” programs such as unemployment insurance, which make up for lost income due to unemployment but do not try to intervene in individuals’ lives or the overall labor market.

While active labor market policies (ALMPs) in Spain represent as a percentage of GDP approximately as much as those of its European neighbors, the country has the highest levels of unemployment, youth unemployment, and long-term unemployment in the European Union. As a result, the country spends less per capita on ALMPs than any other EU member state. Two aspects of Spanish ALMPs underscore broader problems shaping welfare state delivery in Spain. First, the distribution of competencies with respect to ALMPs is messy. Central governments of both the left and right have jealously guarded overall responsibility for the Social Security system and labor market regulation, including the rules governing contracting. Starting with the labor market reform of 1984, central governments have sought to encourage contracting of specific categories of workers—youth, long-term unemployed, women, disabled, and so forth—through incentives for specific contracting categories. These central government incentives now account for 40 percent of all spending on ALMPs, although labor market scholars have demonstrated repeatedly that these incentives are among the least effective ways to stimulate employment (Dubin 2019).

In 1996, the Catalan nationalist party CiU demanded the decentralization of the national employment service in exchange for their parliamentary support of the minority PP government. This set in motion the standard decentralization dynamic in Spain, in which demands by one of the historic regions for competencies under a logic of “asymmetric federalism” are initially satisfied but then balanced by the pursuit of “coffee for all” by the central government and other regions. In this case, the PP immediately extended the decentralization process to all regions with supportive governments, and by 2003, all of the ACs were managing their own regional public employment services.

A decade and a half later, the Fiscal Responsibility Authority (created in the wake of the 2011 constitutional reform aimed at addressing International Monetary Fund and EU pressures for greater fiscal probity in the context of the euro crisis) published a devastating report on the inefficacy and unaccountability of Spanish ALMPs. While intergovernmental
institutions for sectoral coordination exist, the authority was unable to determine exactly how much is spent on such policies and by which level of government. It proved impossible to evaluate the efficacy of the AC programs, the objectives behind the redistribution of funds across the regions for ALMPs were unclear and varied over time, accounting was so deficient that the flow of funds could not always be traced, and there was little evaluation of the results (AIReF 2019). This continued to be the case even after the PP reversed much of the decentralized nature of ALMP management after the fiscal crisis (Hernández-Moreno and Gallarín 2017). Thus, even in a policy area that is critical to the success of Spain’s welfare state, jurisdictional conflict impairs basic implementation and evaluation.

Allocation of Money

Allocated powers mean little if fiscal resources are unavailable to fulfill them. One of the most central aspects of federalism is the fiscal institutions that allow these orders of governments to finance various social benefits and services. In other words, fiscal federalism is a key part of welfare state development in federal countries (Théret 1999). Understanding the development of fiscal federalisms and its implications for welfare states is crucial, but rather than building them out from the public choice logic dominant in the literature, we should consider them as outcomes of decision processes best understood through configurational logics—and then, like policy legacies, constraints on action that must be incorporated into future analysis.

Politicians in democracies, almost by definition, need to think in terms of credit claiming, blame avoidance, and position taking (Weaver 1986, 2018; Arnold 1992; Hinterleitner 2017; Greer et al. 2022). Such actions as doing creditworthy things and avoiding doing blameworthy things, making it easy for voters to trace creditworthy things to them and obscuring or shifting blame for blameworthy things, and signaling their fidelity to shared values are key activities of politics. This basic logic fits with almost all literature on the financial dimensions of territorial politics. The assumption is that a politician, looking for credit and avoiding blame, will want extensive resources to spend in ways voters and interest groups like but will shy away from raising the revenue, preferring instead to opt for debt, hidden revenue raising, or, best of all, revenue transfers from some
other level of government that can shoulder the blame for taxation. All the better if those resources are unencumbered by conditions or oversight from somebody else.

Most research therefore assumes that politicians at any level seek money and autonomy, with a tendency to come down on the side of taking money even at the price of a loss of autonomy. The credit for new services can be enjoyed even if that reduces their future options in some way. This means that a central government that enjoys a vertical fiscal imbalance—and, empirically, they very much tend to have one—can shape the welfare state through conditional grants and the establishment of new programs. It is also important that in the allocation of authority found in most federations, the regions are responsible for some very inflationary services such as health care, education, and social care that require extensive labor, are difficult to make more efficient, and are sensitive to demographic shifts that no government can really determine. If a government is responsible for those services, it will either have to have a big revenue source (local taxation or a suitable funding formula), or it will start to rely on debt and cuts that create future vulnerability and imperil services.

The simple logic that politicians will try to avoid blameworthy revenue raising while engaging in as much creditworthy spending as they can therefore leads to a whole series of theses in the literature (e.g., Beramendi 2011; Garman, Haggard, and Willis 2001; Falleti 2010; Rodden 2005). As we have noted, the flypaper effect posits that central states can create lasting policies by cofinancing programs even if they then reduce their share, since regional governments would rather finance popular programs and shoulder the blame of raising taxes than take the blame of cutting the programs. That dynamic suggests that the logic of credit and blame will often empower central governments over time. A focus on soft budget constraints likewise logically arises, since it stands to reason that politicians would prefer that debt underpin their credit-seeking actions rather than taxation, and so one might expect a tendency to debt-financed extravagance in any government unless policed by bond markets in the context of a hard budget constraint or some higher authority (Dyson 2014). Meanwhile, the applied economists working on fiscal federalism can point out that putatively beneficial intergovernmental competition requires that governments be dependent on their own resources and that voters, to hold governments accountable for their money, benefit from knowing which taxes are levied by whom—a perspective that leads to an ideal model of
a system in which each government raises clearly identifiable taxes with some level of transparency equalization where needed.

Thinking through the implications of these dynamics, rules, and exceptions and their policy implications is the subject of a large volume of literature in political science and economics (for reviews, see Bednar 2011; Kincaid 2019). It comes as close to a set of general theories of federalism as we have, because the basic logic of public choice analysis is both very simple and so extensively rehearsed as to be comfortable. It has a disciplinary bias, of course. Social policy and sociology scholars engage little with this literature, though they will often note the negative consequences of precisely the fiscal rules and competitive dynamics that many of public choice’s proponents applaud. Hard budget constraints on regional governments, for example, are a textbook way to prevent excessive regional debt, harness competition, force regions to prioritize, and prevent bloat. But they also tend to make regions procyclical, preventing effective automatic stabilizers and extinguishing many regional social policy innovations when economic cycles turn down. We see this in the endless history of U.S. state health policy initiatives that expanded access when times were good and withered when the business cycle changed (Jacobson and Braun 2007) or in the first attempts at province-led welfare state expansion in Canada (Maioni 1998). While there are many cases of interesting regional-level social policy innovation, redistributive policies with long times to economic payoff such as higher education investment or universal health care are only likely to survive a business cycle if they are rescued by a more robust government—that is, the federal state. Even the difficulty of maintaining short-term regulations such as public health measures taken in response to COVID-19 shows the limits of state resources.

We can see how this would, over time, produce a focus of subnational governments on “investment” policies that can pay for themselves through taxes in fairly short order and how this focus would increase with the dependence of those governments on raising their own tax bases. It would also create tradeoffs between policies that invest in human or physical capital and ones that directly subsidize or lower taxes on particular firms—actions that increase interjurisdictional competition for investment by particular firms and whose contributions to overall welfare are debatable (and in some cases even lead to marketing campaigns by one state against another; in 2020, for example, billboards on Michigan highways adver-
tised Indiana’s weaker COVID-19 policies and invited neighboring Michigan’s citizens to come enjoy them).

Dependence on taxes will lead policy makers to cut back on redistributive policies with each downturn in the business cycle. Intergovernmental transfers or debt can mitigate this procyclicality, though with other costs. These mechanisms produce the characteristic finding that the most redistributive policies are found at the highest level of government with intergovernmental transfers and debt permitting greater redistribution at the lower levels of government (P. E. Peterson 1981, 1995; Glaeser 2011; Adolph et al. 2012; Greer and Elliott 2019).

There are exceptions to the force of this logic. Politicians’ estimates of the allocation of credit and blame and the logic of position taking are at the core of the theory, and they can look like misperceptions and mistakes to others. These theses are extrapolations from incentive structures facing governments rather than rules. For instance, there is no rule that this logic must always point toward regional governments accepting central money. Some nationalists actually make control of taxation a point of some pride, as in Quebec and the Basque Country (though the latter does so in the context of a very beneficial fiscal regime). While Catalan nationalists initially rejected offers to copy the Basque model out of fears of its hard budget constraint, demands for much greater control over taxation are now a centerpiece of the nationalists’ rhetorical repertoire (León Alfonso 2015). In other cases, such as U.S. states in the ACA, the promise of nearly free federal funds for expanding a program (Medicaid) beneficial for the working poor and health-care providers was not always enticing; some Republican-led state governments preferred to take a position against the ACA and refuse the money, reasoning that an anti-ACA position was better politics and presumably also taking into account the fact that the expansion would not benefit their voters (Grogan and Park 2017; Rose 2015; Patashnik and Oberlander 2018; Singer and Rozier 2020).

The Spanish case offers an interesting contrast that further contextualizes the configurational approach and demonstrates the importance of nationalist parties for understanding welfare state dynamics in federal systems. Federal and regional social policy domains overlap less in Spain than they do in Canada, so competitive dynamics across levels of government are rare. Not coincidentally, central government austerity initiatives during the eurozone crisis were particularly aggressive with respect to health.
and education spending, the two largest policy areas controlled by regional
governments. However, the central government failed to appreciate the
nation-building roles of these policies. As we have noted, faced with a
financial crisis largely of their own making, the Catalan nationalists were
able to deflect blame for the largest per capita deficit of any region by
accusing Madrid of robbing the Catalan nation and thereby justifying
their push for independence (Hopkin 2020).

The interaction with party systems over time can shift the meaning of
policy legacies. As recent changes in Belgium suggest, over time, partial
decentralization becomes possible in the context of government forma-
tion exercises (Béland and Lecours 2018). In Spain, by contrast, Basque
and Catalan nationalist parties cannot force the Spanish government to do
anything in periods of majority governments. It is no accident that Span-
ish democratic-era history alternates between periods of majority rule by
a major nationwide party, when territorial political debates are about the
conflict between the state and self-rule in the autonomous communities,
and periods of minority government, when there is a degree of de facto
shared rule and strategically sophisticated nationalist parties outside the
center can pursue their interests (Field 2016). Party leaderships do this
bilaterally. Nationalist and regionalist parties have always been uni-regional
and largely uninterested in building larger alliances. The (regionalist) Par-
tido Andalucista, seeking to represent one of Spain’s poorest regions, has
no interest in reducing territorial redistribution. The regionalist parties in
Navarre and Cantabria are more accurately described as factions within
the PP focused on regional patronage rather than national fiscal politics,
and the same could be said of the dominant party in the Canary Islands,
Coalición Canaria. In this sense, Spain is more like Canada, where to
speak of a decentralist “alliance” would be an exaggeration in conversa-
tions about Alberta and Québec (especially these days with the conflict on
pipelines). Rather than an alliance, the two provinces have had a similar
(decentralist) position, which was heard at federal-provincial meetings and
the like.

Tax Powers and Fiscal Redistribution

Fiscal federalism has two main components: vertical and horizontal. First,
the vertical side is about the allocation of tax powers and fiscal resources
between different orders of government. For instance, what is the tax capacity of the federal government compared to that of constituent units? Here even a cursory look at the comparative data suggests that this level of tax centralization varies greatly across states. This is illustrated by table 1, which shows that, in some federal countries like Australia and Mexico, the federal government collects the bulk of tax revenues, which is not the case in more fiscally decentralized federations such as Canada, the United States, and, especially, Switzerland, where Bern exacts barely a third of total tax revenues.

In countries like Mexico, where constituent units have limited taxation powers, such units must rely more extensively on fiscal transfers from the federal government. For example, in 2013, according to the OECD, about 70 percent of the fiscal revenues of Mexican states took the form of federal transfers. Simultaneously, in Canada and the United States, less than 20 percent of state-provincial revenue originated from federal transfers.

In addition to the actual sources of constituent unit revenues (taxation versus federal transfers), another major issue regarding the vertical side of fiscal federalism is whether fiscal revenues available to constituent units match the evolving division of policy labor between these units and the federal government. When constituent units do not have access to as much revenue to finance social benefits and services as federal governments, there is a vertical fiscal imbalance. This issue can become politically controversial, as was the case in Canada in the early 2000s, when the Québec government put together a commission on “fiscal imbalance” to pressure the federal government to transfer more money or tax points to the provinces (Commission on Fiscal Imbalance 2002). In other words, the question

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*Source: Data from OECD.*

*Note: Total government revenues constitute federal, constituent unit, and local (municipal) governments.*
of the proper balance between tax powers and fiscal revenues, on the one hand, and the allocation of policy responsibilities, on the other, is a contentious political issue that can be used by constituent units to pressure the central government to allocate more resources to them. The political conflict over vertical fiscal imbalance is likely to be more intense when different parties control the federal government and constituent units, as was the case in Québec in the early 2000s, when the PQ was in power in the province while the Liberal Party of Canada formed the federal government.

In Belgium, decentralization first occurred in the form of a transfer of political and policy-making power from the central state to Communities and Regions: “The devolution of the financial powers did not follow the pace of the devolution of the policy-making powers, which meant that until 2002 the basic logic was one of redistribution to the regions and communities of centrally collected taxes” (Deschouwer 2012: 69–70). This configuration of a decentralized federation for policy-making, albeit not for social policy, and a centralization of taxation powers into the early 2000s meant that, with many Flemish parties struggling for greater fiscal autonomy for Flanders, the last two reforms of the state (in 2002 and 2011–14) included important fiscal dimensions. The sixth reform of the state increased the fiscal autonomy of Regions, but the existence of a non-territorial constituent unit in the federation, the Community, means that fiscal federalism in Belgium heavily relies on federal transfers. Indeed, fiscal autonomy for the Communities could translate into significantly differentiated treatment of Flemings and Francophones in Brussels (Goosens and Canoot 2015: 42).

In Spain, the euro crisis led to massive cutbacks in public investment and in current spending. The crisis provided the central government with a perfect excuse to put a hard stop to the soft budget constraint that had long faced the fifteen regions in the common regime financing system. Starved for cash and cut off from the capital markets, these regions had no choice but to enact massive and politically unpopular cuts (Del Pino and Pavolini 2015). Anxious not to be blamed for the region’s woes (and the largest debt of any Spanish region), the Catalan center-right nationalists fully embraced demands for independence for the first time (Barrio et al. 2018).

When federal transfers to subnational units are considered, two main policy instruments are used: cost sharing and block grants. Both can be combined with conditionality set by the central government. On the one hand, as the name implies, cost sharing is about the federal government and
subnational units sharing the costs of particular programs. For instance, for each dollar paid on education by a subnational unit, the federal government would allocate fifty cents to that unit. In other words, the idea of cost sharing is that each level of government covers a certain percentage of the costs of running a specific program or set of programs. On the other hand, block grants are fixed sums allocated by the federal government to the subnational units to perform certain tasks. The federal sums allocated can fluctuate from year to year, but they are set in advance and not automatically proportional to the actual amounts spent by subnational units. This means that the federal government does not pledge to reimburse a certain percentage of the money spent by these units on certain programs, as is the case for cost-sharing arrangements. In recent decades, some federal countries such as Canada and the United States have moved toward a greater reliance on block grants, which typically offer more fiscal predictability to the central government while creating incentives for subnational units to control program costs, as they receive a fixed sum every year, regardless of how much they spend, rather than a percentage of what they effectively spend. A striking example of a shift from cost sharing to block grant funding is the 1996 welfare reform in the United States (Weaver 2000). Regardless of the transfer method used, however, strings can be attached to federal transfers, meaning that subnational units must fulfill certain programmatic conditions to receive the money. Interest groups, specialist networks, and policy advocates entrenched since the twentieth century as well as courts all support these restrictions (Kincaid 2017). For example, in the case of the 1996 U.S. welfare reform, work requirements and limits on the amount of time most beneficiaries can stay on social assistance rolls were imposed upon the states in exchange for the federal money allocated through the new block grants (Weaver 2000). The issue of whether a fiscal transfer from the federal government is conditional or unconditional is key for welfare state development in federal systems.

In Spain, there are formal requirements for the ACs to implement in the areas of education and healthcare, but neither are these carefully monitored nor are the regions penalized for failing to meet them. Moreover, transfers to the fifteen ACs not responsible for raising their own funds are not earmarked for specific programs, so central transfers are effectively fungible across policy areas administered by the regions. By and large, the contributors to Greer and Elliott (2019) found that conditional grants and financing are a New World approach, found in Australia, Brazil, Canada,
Mexico, and the United States, among others, but relatively marginal in Europe. At most, in Europe, they were limited special grants that central governments gave to promote their policy and partisan objectives (though these grants can add up; see Kleider, Röth, and Garritzman 2018 for their size in Germany).

Second, the horizontal side of fiscal federalism concerns the issue of fiscal inequalities among constituent units, which have uneven economic and tax resources available to them. The way in which the federal government approaches horizontal imbalances is a critical question related to the issue of social citizenship, as citizens living in poorer constituent units may receive lesser benefits and services simply because their government is in a weaker position to extract their own tax revenues. The federal government can tackle this problem in two main ways. First, the federal government can allocate a disproportional amount of money to poorer constituent units through existing cost-sharing and block grant transfers in a way that reduces or eliminates the disadvantage these units face in terms of revenue collection. In this context, the federal government can address both vertical and horizontal unbalance all at once. Second, the federal government may create a stand-alone equalization program that aims at allocating more money to poorer constituent units without strings attached.

Most federal systems such as Australia, Canada, Germany, Spain, and Switzerland operate stand-alone equalization programs (Brenton 2020; Boadway and Shah 2009). The United States is a major federal exception here because, with the partial exception of revenue sharing (1972–86), it has not used this type of policy instrument (Béland and Lecours 2014). The U.S. federal government uses equalizing formulae in big programs such as federal contributions to Medicaid, and its spending is often equalizing insofar as poor states have many poorer and older people, but it does not try to equalize state government budgets. In Canada, where provincial governments have important responsibilities for social protection, equalization payments represent a significant proportion of the budgets of recipient provinces (especially New Brunswick, Prince Edward Island, and Manitoba) (Béland and Lecours 2010; Béland et al. 2017). They have allowed governments of poorer provinces to provide public services of comparable quality (and at a comparable rate of taxation) to those of wealthier provinces as per the program’s constitutionally specified objective. This presence or absence of stand-alone equalization programs has
direct implications for welfare state development, as the lack of such a program exacerbates fiscal competition among constituent units while putting poorer units at a clear disadvantage (Théret 1999).

The underlying level of (in)equality of a society, which is demonstrably amenable to policy, also matters because nowhere are need and wealth equally spread across territory. More equal societies are likely to have more resilient local economies and finances than ones in which a small number of rich people reside in just a few places (and whose money might reside offshore). If there is no great income inequality in the population, then it is less likely that there will be regional governments in places with concentrations of need and low potential tax revenue. Further, welfare states insure individual risks in different ways and redistribute between people as well as between places. Social insurance programs such as pensions can constitute very large transfers into a given area even if its government can spend little. The United States is an extreme example of this, with a federal welfare state mostly targeted at people over age sixty-five coexisting with extremely variable state regimes for people under age sixty-five (Elliott, Greer, and Mauri 2019). The extent and impact of interpersonal inequality and redistribution, and the need for interterritorial redistribution due to interpersonal inequality, point to the importance of a variable that we do not otherwise discuss, which is the organization of the labor market (Greer 2018). Labor markets and regulation might not be social policy or the welfare state, but they are key to understanding life chances, which then affects the politics of social policy at every level.

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1. Income equality in the population might explain how Nordic countries—and only Nordic countries—can successfully leave the bulk of health-care financing to local governments, with their limited tax bases. Essentially every policy theory suggests that local finance of health care is a bad idea, creating risk pools that are too small, leaving poorer governments in Tiebout traps where they cannot raise enough taxes to sustain services without causing taxpayer flight, and creating races to the bottom. The conversations in which we engage in this book are about whether regional governments, which can have millions of inhabitants, are big enough to sustain welfare states, so local authority is barely mentioned. But the interpersonal equality is so impressive in the Nordic countries as to make local finance of health care practicable with some central subsidy: there simply are no islands of poverty whose local governments would have incentive to start a race to the bottom or get caught in a Tiebout trap.
State Capacity and Policy Implementation

Beyond the legislative process dominated by party politics, state capacity is a crucial issue that matters a great deal when the time comes to implement policies voted on by the parties in power. Simultaneously, expectations about limited state capacity and, therefore, trust in government can have a direct impact on the politics of social policy beyond implementation. This is the case because citizens and political actors are unlikely to ask their government to perform tasks they think it is incapable of doing, because of corruption, incompetence, or limited resources. In her book *Protecting Soldiers and Mothers*, Theda Skocpol (1992) shows how, in the United States during the Progressive Era (1890–1920), patronage and what appeared as the politically manipulated distribution of Civil War pensions diminished trust in government and weakened the claim that it could administer social programs fairly and effectively.

Corruption remains a politically consequential issue everywhere. It brought down the Canadian Liberals in the early twentieth century, and Donald Trump catalyzed it as a major issue in the United States. In Spain, the PP government led by Mariano Rajoy was brought down by the first successful censure in Spain thanks to corruption; the Catalan Socialists (PSC) finally broke the center-right nationalists’ stranglehold on the regional government thanks to corruption; and those same corruption charges are critical for understanding the center-right Catalan nationalists’ embracing of independence claims. Limited state capacity and widespread corruption are still more important issues in some federal countries located in the Global South. A striking example of this is Nigeria, a highly diverse and fragmented federal country where corruption is endemic at both the federal and the subnational levels, a situation that weakens trust in government and the prospects for effective social policy implementation (Smith 2007).

Beyond corruption, limited state capacity remains an issue in federal systems. This is especially the case at the subnational level, where smaller constituent units can have limited fiscal and human resources to formulate, adopt, and implement policy (Niedzwiecki 2018). Here subnational units are not born equal, and poorer or low-population units may struggle to get things done in the first place. For instance, in the United States, it is clear that California, a state of nearly forty million inhabitants, can have far more expertise, personnel, and fiscal resources to devote to social programs than Wyoming, which is about sixty-seven times less populous,
with fewer than six hundred thousand inhabitants. California has many counties with larger populations and GDP than Wyoming (Los Angeles County, at just over ten million inhabitants, has more people than Michigan or North Carolina). Economies of scale available to California do not exist in much smaller states, something that may affect the evenness of welfare state development across the country (even if there are many exceptions in which large jurisdictions prove incompetent and small ones excel). At the same time, as the COVID-19 pandemic made clear, California’s size meant that it afforded its local governments great autonomy because the state government was not capable of implementing identical policies across its vast and diverse space. The same remarks apply to more populous Canadian provinces such as Ontario and Quebec, which have far greater fiscal and bureaucratic capacity to fund and implement social programs than much less populous provinces such as New Brunswick and Prince Edward Island. In the case of these two last examples, what we have is not only smaller jurisdictions but also poorer areas of the country that rely extensively on federal equalization payments to fund their social programs (Béland, Lecours, et al. 2017).

This discussion points to the fact that, in addition to population size, other factors like the level of economic development and geographical characteristics can impact state capacity and complicate (or facilitate) policy implementation. For example, in Belgium, economic and fiscal disparities between Flanders and Wallonia mean that some policies implemented in the first region cannot be replicated in the other due to the lack of available funding. The main example of this is the dependency insurance scheme created by the Flemish government in 2001. In a country where social insurance remained under federal jurisdiction, the creation of this scheme in Flanders caused major concerns in Wallonia, but, in the absence of fiscal and economic resources to fund an equivalent program, no policy was enacted there. This situation has created an enduring asymmetry within the Belgian social insurance system, which many Francophones see as a threat to countrywide economic solidarity (Béland and Lecours 2008).

In Spain, the ACs vary significantly not only in population size and geography but also in financing capacity. Some Spanish ACs have particularly small populations (e.g., La Rioja), while others have very low population densities (Castilla y León and Castilla La Mancha in particular) or are isolated island chains (the Balearic and Canary Islands). Ceuta and Melilla are tiny urban settlements in North Africa. All of these factors complicate
the delivery of healthcare, education, and other welfare services. The most significant difference for welfare outcomes across the ACs is, however, the financing system. The Basque Country and Navarre enjoy far more per capita resources than the other regions and greater autonomy over policy thanks to their unique concertation system. Great fiscal authority and responsibility appear to be directly related to governmental capacity in these two historically wealthy regions compared to others that have similar levels of economic development (Dubin 2019).

A vein of American literature focuses on the “professionalism” of U.S. states, generally finding both variation in and a collectively high level of professionalism as well as an upward trend, which sustains the idea that states are useful laboratories of democracy (see Morehouse and Jewell 2004 for a review of the political science approaches; see Tani 2016 for a sophisticated discussion). Notably, it does not coincide with discussions of the varying and often declining quality of democracy in those states. Neither does “professionalism” or the other measures of capacity predict the actual resilience that states have or are intended to have in the face of a crisis such as COVID-19.

Conclusion

The study of federalism as an institution must account for its interaction with not just politics and other political institutions but also existing policies. While policies, including taxes, spending, and the fiscal transfers underpinning them, are products of politics and institutions at one time, they become important constraints on policy options and, in fact, political imagination (Pierson 1993). Understanding how policies shape politics applies to the politics of federalism as well. The options available to Quebec’s government were shaped by the politics of pensions in Canada, which enabled state-building projects unavailable to stateless nations in Spain or Belgium, where pensions remained centralized. The inability of Spain to develop effective ALMPs was shaped by inherited intergovernmental fault lines in programs. The United States’ tendency to enact state-federal programs based on conditional grants shaped the ACA and its conflicts.

One result is that state trajectories stand out, whether it is the affection for conditional grants in some countries, the relative reluctance of social insurance systems to admit their territorial distributional dimension, or
the extent to which interpersonal redistribution and territorial redistribution are aligned. Yet it also highlights how little we can know of the policy space that different governments really have if we do not know how much of the key resources of politics—resources, money, and power—previous policies have left them with (Greer 2006; Tani 2016; Béland, Rocco, and Waddan 2016).
Institutions are a central aspect of contemporary political analysis, and institutionalism is one of the main forms of explanation in social science research (Parsons 2007). Institutions are central to several influential theoretical perspectives, including historical institutionalism, which informs our own approach to politics (Immergut 1992; Pierson 1994; Skocpol 1992; Fioretos, Falleti, and Sheingate 2016). Federalism is a formal political institutional form that exists and gains much of its day-to-day, observable meaning in interactions with other institutions and political forces. That is what this chapter explores by discussing different types of institutions and their potential impact on the federalism and social policy nexus.

Institutions are constitutive of much of politics, for all that they reflect political bargains. It might be appealing, for example, to follow Douglass North and view institutions as the “rules of the game” to which political players are subject (1990), but any application to a real public policy shows that the distinction is hopelessly blurred. Rules constitute the players as well as constrain them. Trying to divide between rules and players can be about as meaningful in life as it is in chess (Krasner 1999). To divide between an actor and the rules that shape it in politics is about as useful as to ask what a bishop or a queen is, independent of the rules of chess.

The chapter starts with a critique of the way that the concept of “veto point” is often used in the study of federalism. Although we recognize that veto points of various political actors can shape the politics of social policy in federal states, we suggest that, in and of itself, federalism cannot be understood only or primarily as a veto point or even as an automatic generator of veto points. Next, the chapter turns to the institutional systems within which any given government is located: the authority and
resources that governments in a particular system possess. It then discusses the “internal” components of policy making within governments, above all their policy-making institutions and the extent to which these shape their policy options and actions. The chapter then moves to the mechanisms that sustain the division of powers, make the federation more robust, and also enable the cooperation that is necessary for almost any public policy to work. Issues discussed here include policy implementation and the potential impact of existing policy legacies on the politics of federalism. The three attributes of a federation—the internal decision-making of governments, the fiscal and policy substance of the system, and its coordination mechanisms—shape the practical meaning of federalism in all cases, including the actual behavior of governments and the more contentious politics of nationalism and regionalism. Although the chapter draws from many country examples, the four cases at the center of this book, Belgium, Canada, Spain, and the United States, are used more systematically.

Analysis of political institutions’ effects is difficult because there are so many of them: the interaction of electoral systems, presidentialism, bicamerality, referenda, constitutional judicial review, party systems, and federalism produces a number of possible combinations that comfortably exceeds the number of OECD federations and perhaps the number of federations in general. Many of these interactions (e.g., the interaction of electoral rules, presidentialism, and parties) have very substantial literatures in their own right. Rather than explore the possible combinations, many of which would be descriptions of theoretical possibilities that do not actually exist in any real country, we map out how to identify the ways in which key institutional variables might work. The most important theories of institutions have focused on institutionally based vetoes, but as we discuss below, they risk downplaying the constitutive effects of institutions and the broader social forces and policy legacies that we have discussed. It is perhaps understandable that veto points theorists tend to simply code federalism as a veto point, because the point of that approach is to flatten out distinctions in order to gain theoretical power. It is not clearly a trade-off that has paid off.

Beyond Veto Points

One of the key concepts associated with historical institutionalism is “veto point.” Following Ellen Immergut, “A ‘veto point’ is defined as a political
arena with the jurisdictional power to veto a government legislative proposal, in which the probability of veto is high” (2006: 567). Veto points are exactly the core of the macro-sociological thesis that associates federalism with a less generous and egalitarian welfare state (Rueschemeyer, Stephens, and Stephens 1992). The logic is simple and powerful enough: veto points are institutional opportunities to block a decision; multiplying their numbers makes a polity more demos constraining (Stepan and Linz 2011). They work in different ways though.

Thus, for example, Canada has limited veto points within governments due to the presence of a parliamentary system that fuses executive and legislative powers. It might have far more welfare state innovation than one with many kinds of veto points across all of its governments, such as the United States. There is a long tradition of speculation about cultural differences between Canadians and citizens of the United States, one that tends to disregard very important distinctions within the two countries (to disregard differences between Francophone Canada and Anglophone Canada or between enslaving/Jim Crow states and free states in the United States is to disregard most of the key dynamics in the two countries’ histories). In many cases, though, it is hard to see how the different policy outcomes cannot be attributed to multinationalism, the presence of slavery in the United States, political institutions, and policies. In Belgium the consociational practices used to manage the relationship between Flemings and French speakers involve a significant veto point. As federal executives are constitutionally required to have an equal number of Flemish and Francophone ministers, each language community has a collective veto, through political parties, over policies falling within the jurisdiction of the federal government. A similar rule exists for the formation of the executive of the Brussels-Capital Region, which means that policy making there also involves veto points. Veto points are separate from constraints such as policy legacies or finances, though they are obviously linked.

One effect of looking at veto points in comparative politics, as Linz and Stepan (2011) noted, is to highlight just how extraordinarily demos-constraining the United States is. We should wonder less at the inegalitarianism, fragmentation, inefficiency, and opacity of the U.S. welfare state and more at the scale of redistribution and social insurance that it does provide relative to what most institutional analysis would lead us to expect. That finding holds even if we note that a strikingly outsized component of the U.S. welfare state is education, where competition has worked to increase
expenditure in many places. It is perhaps surprising that the United States has a welfare state at all, given its bicameralism, political and powerful courts, malapportioned and supermajoritarian upper house, weak and procyclical state fiscal bases, and history of authoritarian enclaves, all of which were developed or sustained by a mixture of economic elitism and racial politics with deep roots in the society. Perhaps the existence of a welfare state in the United States calls for a grudging nod to modernization theory, for showing that welfare states can arise from social demands under even hostile institutional circumstances. The U.S. example might also lead others to probe harder for explanations for rising inequality and poverty in the other liberal countries with relatively small welfare states that have fewer of the big veto points and no recent history of subnational authoritarianism, in particular Australia, Canada, and the United Kingdom.

Spain also presents an interesting contrast in this regard. The country is one of the most unequal in Europe, although it is hard to blame federal veto points for such outcomes. Its pension system and labor market rules create insiders and outsiders (the former due to low levels of non-contributory pensions, the latter due to contracting rules that encourage firms to achieve flexibility on the margins of the labor market). Both systems are competencies of a central government in a parliamentary system with an almost powerless upper house and both Constitutional and Supreme Courts biased more toward protecting existing rights than limiting the emergence of new ones. Regional control of healthcare has sharply reduced interterritorial inequalities in provision, and the same is largely true for regional control of education. In both cases, some regions may have stymied central government efforts to unify policy, but this is often more attributable to a lack of political will and bureaucratic incompetence (the absence of a policy evaluation culture and lack of state capacity, as discussed in the previous chapter) than to formal veto points (Dubin 2019). When the central government saw fit to reign in regions’ spending in the wake of the 2008–10 financial crisis, it proved remarkably effective in doing so.

Simply identifying veto points cannot go much further than this as a way to analyze comparative politics and policy. That is because federalism cannot be understood only or primarily as a veto point or even as an automatic generator of veto points. First, there are coordination mechanisms, above all, political parties that change the meaning of veto points and can use or overcome them for partisan reasons. Second, the mechanisms that
shape different governments’ actions are far more complex than a simple index of veto points might suggest. The case of Brazil, which looms large in Stepan and Linz’s work (2011), shows this (Arretche 2016), as does the recentralization of Spain since the debt crisis (Maiz, Caamão, and Azpitarte 2010; Colino and del Pino 2014). In both cases, the formal, constitutional arrangements have been creatively recast by central politicians who take advantage of their fiscal situation to change the circumstances of regional governments.

What, then, do these different governments do with their power, money, responsibility, and authority? Institutions also affect the internal decision-making process of the different governments. The key distinction here is each government’s degree of internal unity versus the number of checks and balances, which maps onto the number of veto points they face and their ability to negotiate with other governments. Broadly, the more veto points governments have, the less coherent governments will be as policy makers or actors and the more likely they are to be manipulated by wealthy interests that can afford to act at each point (Ehrlich 2011; Greer 2016a)—and the more they will be able to make strong commitments when they do commit because of the difficulty of changing legislation.

**Executive and Legislative Power**

One of the most basic issues regarding political institutions is the constitution and relationships of executive and legislative branches, which is a crucial focus in the study of democracies worldwide. It is here, almost by definition, that key veto points are found because it is in the legislature and executive that laws are made and executed. In other words, the relationship between executive and legislative branches is about the concrete functioning of democracy, whose nature can vary greatly from one federal country to the next.

The first question is to what extent the executive and the legislature are split. These range from parliamentary systems to various forms of presidential systems. In parliamentary systems, the government is formed out of the party that can command the confidence of the house. While parties generally feature a high level of party discipline among legislators, the government is accountable to legislators who are in turn accountable, as a party, to the electorate via regular elections. Presidential systems have still
more variation because there are many ways that the selection of legislatures and presidents, and their powers, can vary, and the category not only is internally diverse but has been the object of efforts to refine it by adding related categories such as semi-presidentialism (Elgie 2005). A presidential system has, in Linz’s definition, “an executive with considerable constitutional powers—generally including full control of the composition of the cabinet and administration—[who] is directly elected by the people for a fixed term and is independent of parliamentary votes of confidence. [The president] is not only the holder of executive power but also the symbolic head of state and can be removed between elections only by the drastic step of impeachment. In practice . . . presidential systems may be more or less dependent on the cooperation of the legislature; the balance between executive and legislative power in such systems can thus vary considerably.” Linz continued, stating that “two things about presidential government stand out. The first is the president’s strong claim to democratic, even plebiscitarian, legitimacy; the second is [the president’s] fixed term in office” (1990: 52–53). In other words, the president’s accountability is directed to the electorate, not to the other branches of government, and is on fixed schedules.

The extent to which presidentialism matters has been debated, mostly in the context of whether it is responsible for democratic breakdown. An extensive literature (Elgie 2005) shows that it is not clear that there is a direct relationship between presidentialism and democratic failure (Crisp, Olivella, and Rosas 2020; Mainwaring and Shugart 1997a), though the case studies assembled in various collections have been persuasive that real problems emerge when the legislature and the president can be elected with competing mandates and that the tendency for executive self-aggrandizement in presidential systems can be important (Linz and Valenzuela 1994; Mainwaring and Shugart 1997b; Greer, Massard da Fonseca, Raj, and Willison 2022). There is a real obstacle to quantitative analysis since the bulk of cases of presidentialism are from the Americas, where the United States and Latin American states have long had presidential traditions but where other variables specific to those regions might be at work, such as unusually high inequality and the legacies of chattel slavery. The result has been that the topic is receding in importance, supplanted by other ways to analyze institutions due to the difficulties, which we would say were to be expected, of identifying the impact of a single political institution amid the complexity of different configurations (Elgie 2005).
The key point about legislative and executive systems is that the different compositions and relations of the branches of the state matter. This is the case whether or not the executive and legislature are fused and whether or not the legislative branch is bicameral (some upper houses’ impact is limited, e.g., those of Ireland, Canada, Spain, and the United Kingdom, though no upper house can always be ignored), and is therefore the extent to which the legislative and judicial branches create veto points. There are two ways in which this matters.

The first way is that the overall complexity, and number of veto points, of the system is shaped by both federalism and division within government—by both inter- and intragovernmental struggles that are built into constitutions as well as the programs discussed in the previous chapter. The United States is the premier example here. Like most federal states, its subnational governments substantially resemble its federal government. In the U.S. case, that means forty-nine bicameral states with separately elected governors and one unicameral state with a separately elected governor (i.e., Nebraska). Even before adding in the various supreme courts, that means that a policy, to be enacted nationally with legislative approval from all the states and the federal government, would require the assent of 152 independent government bodies—fifty governors, ninety-nine state legislatures, one president, and two federal legislative chambers. It is perhaps no wonder that executives and advocates are interested in avoiding such gridlock (Obinger, Leibfried, and Castles 2005a; Thompson, Wong, and Rabe 2020).

The second way is that quite often the two variables are treated separately, with federalism or separation of powers treated as a single explanation for what should be viewed as their joint effect. The implications of looking at internal government structure for looking at federalism are dramatic. It is common to find studies of the effects of parliamentary and executive relations that exclude federalism and thereby explain either narrow outcomes (of one government) or overstate the impact of their chosen variable. For example, in both the United States and Canada, health care politics were born in the interaction of innovative units (e.g., Massachusetts and Saskatchewan) with the federal government. In both, a regional government proved the short-term viability of a model of expanded coverage, but the regional model ultimately required federal support to survive over business cycles. Yet in the United States, it took decades longer for the federal government to have such a strong Democratic majority that a
successful state model, that of Massachusetts, could be saved and expanded nationally. Since then, of course, the fragmentation of the U.S. federal government and its diversity of states have meant that the ACA is still nothing like a countrywide policy (Cohn 2021). The additional complex of waivers that let states modify programs such as Medicaid at the discretion of the federal executive produces a distinctive politics of its own that can often disempower legislatures and give executives ways to work around legislative opposition. Legislative gridlock in health and other sectors, driven by asymmetric polarization, has contributed to this U.S. variation on “executive federalism” in which executive branches interact to exploit and create as much freedom as the law and partisan politics will let them (Thompson, Gusmano, and Shinohara 2018; Thompson, Wong, and Rabe 2020; Grogan, Singer, and Jones 2017).

Cumulatively, from a democratic and institutional standpoint, the conclusion is that the United States is a very distinctive polity, even relative to veto-ridden Switzerland. No other system combines such a level of intragovernmental fragmentation. Yet the analysis does not stop at highlighting American distinctiveness (though American exceptionalism should be highlighted for those who would draw lessons for the rest of the world from the kinds of policies that pass in the United States). Essentially, parliamentary systems make governments more unitary actors. Thus, for example, the power of comparison works better in Canada, where each province has a premier whose performance can be compared with others, than in the United States, where accountability and power within states are far more diffuse. Likewise, coordination between governments, whether vertically or horizontally, is easier when they are centralized (Wallner 2014). The extent to which many American states are gerrymandered so as to limit their legislatures’ democratic accountability (Keena et al. 2021) is also a distinctive undemocratic element of the U.S. system. Likewise, the globally exceptional scale of malapportionment in its Senate creates serious distortions to democracy by overrepresenting tiny rural states like Wyoming, a distortion exacerbated by a difficult to replace supermajority requirement called the “filibuster.”

In short, the interaction of executives and legislatures is necessary to understand politics in federations. Canadian executive federalism, based in Westminster-model systems with very strong executives grounded in legislative majorities, enables a particular kind of executive-focused Canadian federal politics. Just across Canada’s southern border, executive federalism
means elected executives increasingly making partisan policies by agreement while freezing out often gerrymandered or gridlocked legislatures, with a result that can strengthen intergovernmental partisan and interest group networks relative to the intragovernmental transactions (checks and balances) that have long been thought to characterize the U.S. system. Understanding how the governments within a federation are constituted and operate is important to understanding the negotiations they have and their policy effects, as well as the role of parties and interest networks.

Political Parties: Teams as Institutions and Coordinating Devices

The many coordination problems of democratic government are almost everywhere managed by political parties, which are historically embedded political institutions that link together politicians and interest groups (Aldrich 2006). Parties are not just necessary to the functioning of legislatures and useful in elections. They structure democratic accountability; a comparison of U.S. states over 130 years found that greater party competition predicted longer life expectancy, lower infant mortality, higher incomes, and better educational outcomes (Gamm and Kousser 2021). They are also important to overcome veto points and make democracy work by avoiding deadlocks. Equally, though, when parties want to block decisions, they can use their coordinating powers at every veto point (as happened in the United States under Barack Obama). In consociational democracies, political parties are especially crucial since they represent the pillars upon which the whole system is built. In Belgium before the beginning of the federalization process in 1970, the Liberal, Socialist, and Christian Democratic Parties were the expression of the different “worlds” of Belgian society and negotiated after every election to form a government. After the split of parties along language lines, postelection government formation remained the exclusive domain of political parties, which were now given the constitutional requirement of forming governments with an equal number of Flemish and Francophone ministers. The next section will discuss the intergovernmental policy coordination capacity of political parties and its variability, but coordination is, if anything, still more important within governments, where party organizations underpin the basic functioning of government and what coordination exists across branches.
Spain’s post-Francoist democratic constitution was designed to deliver political stability despite the country’s sharp divides in terms of both ideology and national identity. As a result, coalition governments have been very much the exception at the ACs and, until 2020, unknown at the center. The requirement that censure motions include the proposal for an alternative government reinforced the stability of governments, effectively limiting veto points within legislatures. At the same time, the new electoral system1 favored territorially concentrated parties over those with more diffuse support. As a result, Catalan and Basque nationalist parties have frequently played the role of a veto point when providing legislative support for minority “federal” governments. Critically, however, this veto power is wholly based on their results in democratic statewide elections rather than regional ones and is thus not a product of federalism per se.

Furthermore, parties are becoming weaker as effective aggregators of interests, with Duverger’s law meaning that the decline happened most slowly in majoritarian countries. The old duopoly of left and right parties has been eroding in almost every country for decades. The French party system more or less collapsed in 2017, and the decay of the seemingly indestructible Austrian party system’s long-standing red and black division has been clear since the 2016 presidential election that pitted a Green against a far-right leader (Falkenbach and Heiß 2021), while there has been an increasing pluralization of parties in Italy, Spain, and Germany. In the United States, where the two parties retain near-absolute dominance, there has been increasing partisanship in the electorate and among elected officials, but that has not been matched by increasingly top-down strategic leadership that could harness party unity over time. The most obvious result was the Trump presidency, which benefited from Republican partisanship while upending the internal structure of the Republican Party (Callen and Rocco 2019). Canada and Australia are the only countries to have anything like stable party systems, something confirmed in Canada

1. The d’Hondt system of seat allocation, combined with relatively small provincial circumscriptions, is in effect highly majoritarian outside the populous provinces of Barcelona and Madrid. In addition to rewarding territorially concentrated parties, it punishes ideological parties such as those of the left that do not have territorially concentrated support and over-rewards parties, predominantly of the right, that are strong in thinly populated rural regions. An electoral system that harms the left and incorporates territorially concentrated nationalists while overrepresenting the right in an overall two-party system fits perfectly with the political balance of power and strategies of constitution framers during the democratic transition.
by the return to power of the Liberals in 2015 under Justin Trudeau. Yet the Canadian provincial party systems are very complex. The upshot is that coalition negotiations between parties are becoming more difficult and necessary as the electorate fragments, thereby reducing the ability of parties to coordinate or take strategic decisions.

Belgium is the quintessential case of a federation where intergovernmental relations occur between and within parties. Political parties in Belgium are completely integrated across orders of government, which means that when, for example, both the federal and Flemish governments include the Flemish Christian Democrats, it is the same party taking part in the governing of Belgium and Flanders. This obviously facilitates communication across the orders of government. Because of consociational democracy, the federal coalition must include Flemish and Francophone parties, and, until 2014, the parties that governed Belgium at the federal level were also in governing coalitions in Flanders and Wallonia. Therefore, the federal government typically has seamless access to the governments of the constituent units (including Brussels) simply through the internal workings of parties. Consequently, the big piece of intergovernmental relations in Belgium is the process of government formation at the federal level since a certain number of Flemish and Francophone parties need to agree on a program that includes the management of the federation.

In the United States since the mid-nineteenth century, politics at both the national and the subnational level has revolved around only two major political parties: Democrats and Republicans. In this context, the United States lacks a labor party, a situation that has since the New Deal forced the labor movement to mobilize within the “catch-all” Democratic Party, both at the federal and the subnational level. The consequences of this situation become clear when we compare the United States with its northern neighbor, Canada, a country in which a labor party emerged during the 1930s. Although the Co-operative Commonwealth Federation (CCF) and its post-1961 successor, the New Democratic Party (NDP), have never formed a government in Ottawa, they have exerted pressure on federal governments, especially minority governments, to expand social programs. Simultaneously, and this is where the relationship between federalism and party systems takes a strong explanatory meaning, the CCF and later the NDP took power in a number of provinces, a situation that led to the enactment of new social policies that put pressure on other provinces and the federal government to play a greater role in social policy. The story of
the postwar emergence of universal health insurance (Medicare) in Canada as told by Antonia Maioni (1998) backs this claim by showing how the advent of hospital and, later, medical insurance in the province of Saskatchewan under successive labor governments pushed other provinces to adopt similar policies while pressuring the federal government to offer fiscal support for the new public insurance programs enacted at the subnational level. This partisan and intergovernmental logic ultimately led to the enactment of the 1957 Hospital Insurance and Diagnostic Services Act and the 1966 Medical Care Act, legislations through which the federal government offered matching funds that simulated the advent of hospital and, later, medical insurance in all ten provinces (Maioni 1998). What this example suggests is that both national and constituent unit party systems and how they dynamically interact with federalism are potential factors that can shape welfare state development in federal countries.

Another key issue related to partisanship in federal systems that may impact social policy reform is whether constituent unit party systems are like, and integrated with, the federal party system. To return to the U.S. case, the same two parties, Democrats and Republicans, compete for power at the federal and the subnational level. This means that when federal legislation associated with one party requires the cooperation of states controlled by the other major party, it is then possible that at least some of these states will voice their concerns or even refuse to cooperate in the implementation of the said legislation. This is especially the case during periods of exacerbated partisanship such as the current one. Conservative opposition to, for example, the 2010 ACA boldly manifested itself in Republican-controlled states, many of which decided not to create their own health insurance marketplaces or expand the Medicaid program, even though the federal government pledged to cover the vast majority of the costs (Béland, Rocco, and Waddan 2016). Conversely, when the same party is in power at the federal and the state level, cooperation is more likely, although the level of compliance may vary from one policy area to the next, just like dissent fluctuates from issue to issue in the case of partisan conflict (Béland, Rocco, and Waddan 2016; McCann 2016; see also Niedzwiecki 2018 for a comparative perspective on this dynamic in implementation).

In countries like Canada where some constituent units are governed by parties that simply do not exist at the federal level or by provincial parties that are institutionally independent from federal parties from the same partisan family, territorial conflicts are more likely to occur. A case
example of this is Québec, which currently has three main political parties: CAQ, PLQ, and PQ. The CAQ and PQ do not exist at the federal level, although the Bloc Québécois (BQ), a secessionist party operating at the federal level, has informal links with the PQ. As for the PLQ, it has no formal institutional ties with the Liberal Party of Canada (LPC), and political disagreements between federal and Québec Liberal leaders have long been a feature of federal-provincial relations. For example, in the early mid-1960s, PLQ premier Jean Lesage openly challenged LPC prime minister Lester B. Pearson over the issue of pension reform, a situation that forced the federal government to revise its proposal for the Canada Pension Plan while allowing Québec to create its own Québec Pension Plan in the context of the Quiet Revolution, an effort of economic and social modernization grounded in a massive expansion of the provincial state and a new assertion of provincial autonomy (Béland and Lecours 2008; Simeon 2006).

Finally, the presence of nationalist or region-specific parties in a federal party system can have an impact on social policy, especially if the support of these parties is needed for governments to be formed, survive, or implement their agenda. In this context, nationalist or region-specific parties may have an opportunity to shape the social policy agenda at the federal level or the territorial organization of social policy. In Spain, for example, Catalan and Basque nationalist parties have sometimes provided parliamentary support to minority governments in exchange for more favorable financing arrangements, new competencies, and, occasionally, influence over broader national policies (such as labor market regulation) of particular interest (Field 2016). Indeed, in the context of the strong ideological and political antagonism between the Spanish Socialist Party and Partido Popular (PP), a grand coalition style of government has been unthinkable in Spain, leaving the party garnering a plurality but not a majority of seats reliant on the support of regional nationalist parties to govern. However, when Spain was threatened in 2011 with formal intervention by the International Monetary Fund during the eurozone crisis, the opposition PP supported the Socialist government of José Luis Zapatero to approve the first constitutional amendment since the return to democracy, enforcing a balanced budget on the ACs and providing clear constitutional grounds for the intervention of the central government in regional policy making. Not surprisingly, this reform was fiercely opposed by the nationalist parties (Ruiz-Almendral 2013).
The combination of economic crisis and long-running corruption scandals affecting both statewide and regional nationalist parties has transformed the Spanish party system, with the emergence of new national parties—Podemos, Ciudadanos, and, more recently, the far-right Vox—and the embrace of independence as a core objective by the main successor parties to the historic center-right Catalan nationalist Convergencia i Unió (Orriols and Cordero 2016; Vidal 2018). While the PP government formed after the 2017 elections needed the support of the five Parliament members from the Basque nationalist party (along with support from Ciudadanos) to pass its 2017 budget, reliance on support of the Catalan nationalists is now far more problematic than it once was for the Socialists and currently nigh on impossible for the center-right and far-right parties (PP, Ciudadanos, and Vox), who have made the unity of Spain a cornerstone of their party identities. The Basques’ support came in exchange for a favorable revision of the economic agreements between the regional government and the Spanish state (the *concierto económico*). At the same time, bitter conflict over the level and structure of interregional transfers in the common region system (governing all regions except the Basque Country and Navarre) has led to the postponement sine die of reforms that are legally mandated every four years. While resolving this impasse over the financing system is almost certainly part of any solution to the nationalist conflict in Catalonia, it is hard to see a path back to the former status quo in the short to medium term (Miley 2017 describes the structural obstacles).

The most drastic case of region-specific parties affecting social policy debates, formulation, and territorial organization is Belgium, a country where, starting in the 1960s, national parties split along linguistic lines. Today, Belgium has no significant statewide party, and the country is governed by coalitions of language-specific parties representing Flanders and the French-speaking Community. Over the last two decades, government formation has become increasingly long and contentious in Belgium because of the issue of the territorial organization of the state. Because new governments must agree on basic policy issues including the scope of social and other public policy decentralization, government formation is a difficult task, as Flemish and Francophone parties have widely different preferences (more decentralization for the former and less for the latter; Béland and Lecours 2008). In the last decade or so, the question of the territorial administration of Social Security has become central to constitutional and government formation negotiations, as some Flemish parties
have been pushing for the so-called splitting of Social Security. Up to now, as previously discussed, only fairly minor changes have been made to how Social Security is territorially administered.

Thus, as the examples of Belgium, Canada, Spain, and the United States suggest, taking a close look at party systems at both the federal and the subnational levels and assessing how they interact with policy making is important when analyzing the relationship between federalism and welfare state politics in federal countries.

The importance of parties also highlights the importance of party system change, as noted above. A considerable volume of research on territorial politics highlights the importance of parties in coordinating and mediating disputes—preventing conflict and arranging deals between co-partisans in different governments. To the extent that party systems erode, this form of conflict preemption and management becomes less useful. In particular, there has often been a single big party, on the center-left, that glued together disparate parts of multinational states—the Labour Party in the United Kingdom, the Socialist Workers in Spain, and the federal Liberals in Canada. Their right competitors, meanwhile, are almost uniformly nationalist in some way (e.g., the Popular Party, Ciudadanos, and Vox in Spain are opposed to Catalan and Basque nationalists, who are often of the right themselves; the right parties of Flanders are secessionist or autonomist, with the partial exception of the Liberals; and the Labour Party has been greatly diminished in Scotland, leaving a landscape cleft between the secessionist Scottish Nationalist Party and a unionist Conservative Party). We would expect that decaying intergovernmental coordination and an increased propensity to intergovernmental conflict reflect the declining power of these center-left brokerage parties and the rise of parties that often espouse nationalist views; Spain is a clear case of this dynamic. In the case of the United Kingdom, Brexit is in large part a stalking horse for English nationalism. It has interacted with the problems of Scottish Labour to create a reinforcing nationalist-left versus unionist-right cleavage in Scotland, which greatly brightens the prospects for Scottish nationalists.

Coordination and Intergovernmental Relations

Any government in a federal country is part of a system, with its decisions largely determined by its place in the institutions and party systems of the
larger country, its own internal veto points and structure, and its fiscal resources and policy responsibilities. Such systems are not always clearly bounded and are always shifting. Politics is the art of the possible, and that means most politicians are constantly probing for ways to make things newly possible for themselves or impossible for their opponents. This final section focuses on formal institutions of intergovernmental relations—the ways in which politicians and governments coordinate their actions and manage their conflicts. These are, in a sense, efforts to formally create processes and institutions that will identify issues ahead of time, take more or less binding decisions on shared questions, and provide a venue to anticipate and resolve conflicts. There are many such institutions (Trench 2006, 2007, 2008; Schnabel 2020).

The basic problem that these formal institutions address (and that parties also address, often much more powerfully) is that of stabilizing “transactional” relations between governments (Taylor et al. 2014). Federal politics are necessarily transactional rather than hierarchical, and transactions create transactions costs. Formal intergovernmental relations are a way to systematize those transactions. Governments in such a circumstance face difficulties in credibly committing to any particular approach, however, and party loyalties are more likely to cleave than unite them. The result is that horizontal, egalitarian systems of intergovernmental relations systems tend to be weak, but the more hierarchical model of third-party dispute resolution such as judicial review has more strength.

Realistically, intergovernmental institutions cannot stop disputes if politicians are determined to have them, but in many cases politicians will not have much reason to seek out disputes. Jurisdictionalist politics, which is to say normal politics, puts a premium on pragmatism, credit claiming, and blame avoidance. It does not usually reward politicians for starting fights on behalf of one government against another unless they are very convincingly linked to some more immediate interest (e.g., defense of a natural resource).

The first structural problem with formal intergovernmental coordination is simply that it is not clear why politicians should want to be bound or feel bound by it—the basic problem of collective action. While politicians will not generally have incentives to attack intergovernmental coordination, they will have constant incentives to defect from agreements in order to claim credit for something or simply ignore agreements and coordinating mechanisms when they have no obvious short-term payoff.
The second is that intergovernmental coordination mechanisms are rarely made strong enough to overcome incentives to competitive and uncoordinated behavior. Insofar as a race to the bottom or competition for investment is a problem, or other competitive dynamics are in play, it will be very difficult to keep politicians from defecting in order to bring a benefit to their constituencies.

The result is that formal forums simply die off through lack of interest, perhaps punctuated by a flagrant (and perhaps well-publicized) defection from an understanding. If they have no strong function or statutory basis, they are almost certain to be reformed or expire when federal governments change. The United Kingdom, in particular, has developed a strong collective fondness for bilateral relations between Westminster and the three devolved governments, reflecting both the small number of governments in the United Kingdom and the huge differences between the politics of Northern Ireland, Scotland, and Wales. Its intergovernmental machinery, established with much thought in 1998, has only been used intermittently. Likewise, Canadian politicians routinely default to behaviors more reminiscent of diplomacy than of a shared policy enterprise (Simeon 1972). Westminster governments, at the price of solving most of their internal coordination problems, seem to be especially difficult to then coordinate. Largely majoritarian Spanish governments likewise find it hard to commit to coordination mechanisms. While attention to this problem focuses on highly public disputes involving nationalist parties, the record of Spanish intergovernmental coordination is largely poor because it is usually unclear what problems it solves for the relevant governments. Spanish central governments solve urgent problems with hierarchy if they can; there is little incentive for any Spanish government to develop and abide by shared norms. Regional governments and the central government alike tend to prefer bilateral relationships for issues that matter, pushing aside an extensive machinery of formal horizontal coordination that typically handles low-salience issues, if it handles much at all.

In the United States, as “fiscal interdependence has grown, the institutional structures that helped knit together the levels of government have eroded or disappeared altogether,” in the judgment of experts in 2015 (Conlan et al. 2015: 156). The federal government contributes an enormous amount of money to state and local governments through a multitude of programs, ranging from established and highly codified
conditional grant systems such as Medicaid, to regular assistance that is nonetheless entirely discretionary such as assistance with unemployment insurance in recessions, to a variety of one-off supports such as the strikingly innovative social policies enacted in 2020 and 2021, whose durability is hard to gauge, in part because legislative gridlock and the grossly malapportioned Senate incentivize parties to avoid legislation and work through the more flexible budget process. Even relatively weak organizations such as the Advisory Committee on Intergovernmental Relations have been abolished.

In large part this is an effect of the asymmetry between parties. Broadly, Republican elites prefer fewer policies that redistribute to the poor, more intergovernmental competition, and programmatic decentralization, a preference shared with their voters (Dinan and Heckelman 2020), which produces a characteristic preference for block grants in social policy and a lack of interest in optimizing federal interrelationships. Democrats, less concerned about the formal machinery of government than with delivering policy benefits despite Republican objections, are willing to adopt ad hoc solutions and do not prioritize consistent or coordinated intergovernmental relations. The result is that instead of predictable, formula-based revenue sharing (abolished by Ronald Reagan after a short life), the United States has a forest of complex funding streams whose impact is hard to estimate and occasional giant bursts of federal funding in crises.

States, meanwhile, had an excellent opportunity to show their capacity for horizontal coordination in 2020, when the federal government abdicated its normal role in coordinating, funding, and leading public health emergency response. In the face of the obstructive and erratic Trump administration, governors sought safety in numbers. One of their efforts was to coordinate “reopening” and nonpharmaceutical interventions in late spring, with various groups of states (New England, the Upper Midwest, the West Coast) trying to agree on metrics for lifting and reimposing restrictions and perhaps collaborating to address other challenges such as procuring personal protective equipment. There were some obvious problems: for example, in the Upper Midwest, it made little sense for the Democratic governors of Illinois, Michigan, and Wisconsin to coordinate policies if Republican Indiana, sitting between them, was consistently less likely to enact public health measures. In many states, Democratic governors faced Republican legislatures or courts eager to undercut their cred-
ibility, which made both their institutional and their political willingness to commit to difficult measures questionable. In practice, governors who could not credibly commit to their plans at home were also unable to credibly commit to coordinating mechanisms; the interstate collaborations were quickly forgotten, and states made their own ways.

In nationalist or regionalist politics, the problem facing intergovernmental systems is greater because, like any institution dependent on loyalty to the federation, the intergovernmental institutions will sometimes be attacked in themselves or undermined by politicians with nationalist interests of some sort. Neither dominant nor stateless nations have a monopoly on this kind of behavior. Thus, in Belgium, at least before the pandemic, Flemish representatives would typically oppose or just fail to attend even very technical coordinating bodies, while in Spain intersectoral councils are the site of sniping between the central government and AC governments that accuse each other, rightly, of opacity and defections. As the battle over a referendum for independence in Catalonia grew more intense, the region’s government (controlled by the pro-independence coalition) largely refused to participate in intergovernmental bodies (La Vanguardia 2019), though it made exceptions for health coordination during the COVID-19 pandemic (Dubin 2021).

In Canada, Québec governments have been particularly important actors in intergovernmental relations. When formed by the PQ, Québec governments have had only limited desire to engage substantially in the most visible forums of Canadian intergovernmental relations, such as first ministers’ meetings. For the PQ, working to make Canadian federalism successful is a losing proposition, although it situationally collaborates with other provinces if there are common, short-term goals to attain (e.g., pressuring the federal government for greater financing for health care). When the PLQ forms the Québec government, the province becomes a leader in Canadian intergovernmental relations, especially by encouraging other provincial governments to actively defend provincial autonomy and to struggle for higher federal-provincial transfers. The importance of PLQ governments for intergovernmental relations in Canada is illustrated by its leadership role in the creation in 2004 of the Council of the Federation, a forum for horizontal (i.e., interprovincial) relations. The current CAQ government is taking a middle-road approach, for example, seeking to exercise leadership when it comes to Francophone affairs all over the country but at the same time ferociously defending Québec’s autonomy.
In fact, the big picture on Québec and Canadian intergovernmental relations is that the province has a “traditional position” that remains constant independently of the party in power: autonomy is to be protected at all costs. The province has a coordinating body for intergovernmental relations (Secrétariat du Québec aux relations canadiennes), which oversees (and, within Québec’s bureaucracy, has final say over) all sectoral agreements with the federal government and/or the other provinces.

In general, successful intergovernmental institutions—meaning ones that survive and have some predictable impact on policy—share several characteristics. They have some statutory base. They have some technical problems to solve that actually require coordination on a regular basis. They (therefore) link up lower levels of government departments that might see the benefits of coordination on a given issue and incorporate coordination into their standard operating procedures. A nice example amid the generally fractious Spanish case is the council that coordinates the distribution of organs for transplant. It is long established, is credible, and solves a problem (how to allocate organs when autarchy would not work for anybody) that every ministry has a reasonable interest in solving (Greer 2016a). At their best, intergovernmental forums can harness the benefits of experimentalist governance, in which cooperation and joint learning actually happen and improve policy. Experimentalist governance works when there is a shared problem, no agreed solution, and some kind of a penalty to be paid for failing to solve the problem (Sabel and Zeitlin 2010). When that is the case, and there is quite a lot of literature on such cases in the EU context, an intergovernmental forum could be a valuable site for such governance to develop. A less common kind has a statutory basis and helps to depoliticize a topic that politicians regard, over time, as a drain on energy and votes. Australia has managed to achieve this with a council as part of a system to allocate equalization funds to its component states, though it is open to question what would happen in a less territorially homogeneous country.

Formal intergovernmental institutions of various sorts are likeliest to survive and influence policy when they deliver clear benefits, operate at a relatively modest level for policy, have a statutory basis, and solve comparatively technical problems. They are easy prey to nationalist position taking, defections of all sorts, intergovernmental competition, and simple loss of interest by politicians, but they keep recurring because there is an enormous amount of coordination work to be done in any complex modern
state. Transactional politics make them look desirable as a way to reduce transactions costs of coordination even if transactional politics can also make them weak and unsustainable. This is especially so when there is a stateless nation involved, for when autonomy is a value, the line between voluntary coordination and hierarchical imposition might be particularly hard to agree on.

Coordination: Courts and the Judiciary

Finally, what happens when neither party systems nor intergovernmental institutions have prevented, defused, diffused, or diverted a conflict? The final arbiters of intergovernmental conflict between relatively equal governments are often the courts.

One of the most obvious associations in the study of federalism is between federations and strong judiciaries. Federalism and strong, autonomous courts appear to go together. This is almost by definition. Any federation has conflicts between governments. Insofar as these are solved by an exercise of power by a single government, the country becomes less federal and more hierarchical. Any time the problems cannot be solved through hierarchy, they are susceptible to third-party adjudication, which means courts. To the extent that a country is federal, it has governments of equal status, and the obvious way to adjudicate between them is courts. Added to this functional logic is a general global rise of legalism known by various names including “judicialization” and the “rights revolution,” which means top courts of various sorts are increasingly powerful in many countries (Jarman 2018). Fragmentation of any sort, in government or society, is met with the development of adjudicating institutions (Stone Sweet 2000).

That is the first point: there is a strong association between federalism and strong courts. The role of courts in federations tends to be more important in states that were created as federal than in states that became federal later on. However, in these latter cases, we often observe the development of the judiciary as, or shortly after, the federalization process occurs. In Belgium, for example, the Cour constitutionnelle de Belgique (formerly called Cour d’arbitrage) was created in 1980 to control the constitutionality of laws with respect to the division of powers between the federal government, Regions, and Communities. The scope of the Cour
was widened in 2003 to control, among other things, rights protection. Yet, the judiciary in Belgium has very little involvement in the management of the federation. Conflict in the Belgian federation is not ultimately resolved by courts but through negotiations between parties. Courts cannot form governments, and intergovernmental conflict in Belgium is really conflict between Flemish and Francophone parties. This conflict requires (partial) resolution through compromise for a federal coalition government to be formed.

The second point is that as with any institution the effect of a court’s action is contingent and variable. Some of the key reasons are structural. Eleven Canadian governments, each centralized in a single leader, can come to an agreement. Even if their southern neighbor’s fifty governors and one president come to an agreement, that does not necessarily bind any of the 101 legislative chambers that might be involved in operationalizing a decision or other actors such as elected state attorneys general who have been quick to file lawsuits against the federal government in order to pursue their own policy and electoral goals. The adversarial legalism of the United States is overdetermined, but equally, it is not hard to see why Westminster governments, in a very different legal culture, might not want to litigate policy differences between governments in this way.

Third, the impact of courts, when being used for policy ends of any sort, is variable. One of the most obvious kinds of cases is one in which the courts arbitrate between governments, or different levels of government, about their powers. This can be very important in some cases, such as the numerous ones that helped define the process of decentralization in Spain. The extent to which these cases happen and matter is nonetheless highly variable and easy to overstate. The other kind of case, often more important, is the one in which the courts judge the behavior of governments, for example, when they determine whether a given government’s policy infringes rights or oversteps their legitimate powers. Courts can look very strong, in particular when they are making decisions based on reading constitutions and that are therefore difficult to change with legislation. But they also have their weaknesses. Courts have limited powers to implement, so they depend on others. As a result, courts depend on supportive coalitions to make their decisions play out in practice. Without supportive coalitions made up of politicians, NGOs, bureaucrats, lawyers, and others, the tendency is for “contained compliance” in which loser governments make the smallest possible amendment to the challenged policies.
or occasionally ignore the decision entirely (Conant 2002). In the context of federalism and territorial politics, this means that contained compliance by governments with court decisions can be quite common. The null hypothesis would be that a court decision against a regional government will have an impact largely proportional to the size of the supportive coalition behind that change (Greer and Martín de Almagro Iniesta 2013; Epp 2009; Canon and Johnson 1999; McCann 1994). Losers make strategic calculations about how to respond to decisions and might opt for contained compliance or efforts to change the law. Thus, once again, the impact of formal institutions in juridicalist politics depends on the configuration and strength of interests behind it.

The rejection of various clauses in the Catalan Parliament’s 2006 reform of its autonomy statute (regional constitution) by Spain’s Constitutional Court in 2010 is a paradigmatic example of both kinds of rulings. On the one hand, the court rejected some new powers claimed by the regional parliament, for example, the right to legislate regarding the taxing powers of municipalities or the exclusion of the central government’s Ombudsman Office from oversight of the regional administration. On the other hand, the statute’s declaration that Catalan would be the “preferential” language in the public administration and in publicly owned media in Catalonia was rejected by the court as an infringement on the constitutionally protected status of Castilian as a co-official language in Catalonia. The court’s decision responded to a complaint brought by the PP (then in the opposition), which had sought to mobilize its base by demonizing the new statute. The conservatives’ success at the court, in turn, provided a major pretext for those Catalan parties and civil society groups seeking independence from Spain, provoking the country’s most serious constitutional crisis since the return to democracy (Comella 2014). In multinational contexts, the role of courts is particularly important, and their decisions are heavily shaped by their views and understandings of multinationalism (Schertzer 2016).

Third, courts have politics. This is sometimes quite clear, as in the United States, where the partisan affiliations of judges are clear and, in many states, they run for election (Bonica and Sen 2021). The power of U.S. federal judges, in particular, means that their appointment is an important goal for the parties, and the Republican majority on the Supreme Court enables it to be an important agent of Republican policies (Hollis-Brusky and Parry 2021). Not all courts are as overtly political as those of the United States. Sometimes partisan affiliation is obscured in
the formal legal writings but also crystal clear, as in nominations to the Spanish Constitutional Tribunal (where the nomination of a judge has been a goal of Catalan nationalist parties), or orthogonal to party politics, as with the rights agenda of the Supreme Court of Canada.

Politiciation, which is to some extent inevitable in any body that deals with clearly political questions, is to a variable extent balanced against the constraints unique to courts and the law—constraints of doctrine and precedent, constraints of professional respect (so that lower courts will be more enthused about applying decisions they find convincing), and constraints of the socialization of judges. Judges themselves will often make strategic decisions that move their courts out of the direct line of fire in intergovernmental conflict. For example, until the Spanish Constitutional Court’s 2010 ruling on the Catalan autonomy statute, the court had repeatedly looked the other way when Catalan or Basque language policies clashed with clearly stated constitutional protections for Castilian (Martínez-Herrera and Miley 2010). Regardless of the legal issues, strategic self-protection for the court entailed avoiding the issue—and when the court did confront it, the damage to its stature and legitimacy was predictable.

Fourth, courts have the basic weakness that they must have cases brought to them, and they are constrained by the contents of those cases. In part this means that the power of courts again depends on the presence of social coalitions that can bring cases and litigate them, often for years. Individual courts also have different constraints, such as whether they control their dockets or have to accept every case brought before them. The former gives them far more political autonomy, which they can use to choose, or avoid, cases as they wish (Graber 1993). The fact that courts need cases both puts the emphasis on social coalitions and means that when governments are involved, litigation will often be avoided because party networks or intergovernmental channels solved the problem. Of course, if the dispute arises out of position taking, either due to nationalist disputes or as part of a broader policy dispute, then filing cases is a way to add drama and visibly take a position, even if the actual case is weak.

Conclusion

Federalism is a political institution, but its meaning interacts with others: the United States has a low degree of shared rule and Germany a
high degree of self-rule, so the interaction of bicameralism and federalism nationalizes state elections in Germany but not in the United States. Spain’s constitution writers were concerned to incorporate territorially concentrated nationalists and otherwise empower big statewide parties and created an electoral system that does that and has since shaped Spanish governments and party strategies. Federalism seems to empower judges, but how much it does so varies considerably with existing legal traditions, the extent to which judges are part of party politics, and the impact of courts on federalism can change as a result of events not really related to federalism, such as the repatriation of the Canadian Constitution or Europeanization. There could be many more examples. But the key point is that a configurational analysis shows that a few key institutions shape self-rule and shared rule and thus redistribution and conflict over social policy.

This chapter has listed some of the key formal political institutions that matter to shape the everyday politics of federalism and many of the most easily observable political actions. The interaction of courts, electoral systems, parties, and federalism explains much of the everyday politics of public policy in any of our countries. We included parties not as a formal (or constitutional) political institution, such as a court or an electoral system, but rather as key coordination mechanisms and mechanisms of preference aggregation. Just like putting formal configurational institutions last in our framework, classifying parties as a form of coordination rather than a constituent element of politics is a deliberate decision. Party politicians have agency, and their competence and organization have considerable implications for the ability to aggregate interests (Ziblatt 2017; Gibson 1996). But that amounts to grading the effectiveness of parties as coordination mechanisms, which in the context of federalism and social policy is how we argue they are best viewed. Parties are constant elements of political observation, but, as with institutions, it is tempting to reduce analysis to what is most easily observed. With parties as power-seeking organizations filled with politicians interested in observing and relating to elements of society, it should be no surprise that they reflect the bigger and deeper changes that we discussed in earlier chapters.

Political institutions are unavoidable parts of the configurational analysis to understand specific public policies and political moments. They shape political careers, immediate political decisions, and the contests over agendas, framing, and votes that constitute public policy. They are of vari-
able fixity; politics also involves bets on which institutions can change at a given time and the changeability of institutions itself is a variable of interest that varies between countries and eras. They are crucial to the observation of politics and to the explanation of specific outcomes, even if the broad development of the political economy is often more important over time.
CHAPTER 6

How to Analyze Federalism

There are a variety of obvious ways to examine how federalism affects the welfare state. One way is the quantitative literature we critiqued in chapter 1, which used statistical regression techniques to find a correlation between decentralization and less generous welfare states. This kind of analysis was badly overdetermined and likely to be consumed by unobserved country-level variation. Time-series analysis could not reduce the intractability of these challenges because it rarely showed institutional changes. These problems likely explain why this kind of analysis petered out around the turn of the century.

The traditional comparative approach to coping with such overdetermined cases involves deeper studies of a few comparable countries. Comparing federal and nonfederal countries, whether in statistical analysis or paired comparisons, presumes the existence of comparable nonfederal countries. However, such cases are not readily available (Steinmo 2010); for example, nonfederal countries tend to be smaller than federal ones (Adolph, Greer, and Massard da Fonseca 2012; Hooghe et al. 2016). The number of countries we have to compare is far too limited to apply many methods from quantitative analysis, and there is always a significant risk that unspecified country-specific factors explain the outcomes.

There is a further endogeneity problem that is especially acute in the study of federalism (Rodden 2004). Federalism was often adopted as an institutional form in order to keep a country together; for every “coming-together” federation uniting several units, there are several “staying-together” federations that decentralized in order to maintain any level of unity (Stepan 2001). In other words, Canada, Belgium, Spain, and...
the United Kingdom are decentralized because they are multinational states (Erk 2003; Erk and Koning 2009), but it is very likely that their decentralized politics reinforced their regionalist and nationalist tendencies at some level.

As argued in chapter 1, here we have the whole universe of a dozen cases and an absurd level of overdetermination and endogeneity, with more good variables than federal states. In this, scholars of federalism are not alone, which is why process tracing and comparison are such anchors of even mixed methods of research in institutions. There is more promise to qualitative, case study–based comparative research that overcomes these problems. It is perhaps telling that one of the most elaborate and elaborated research projects on comparative federalism and the welfare state started with statistics (Castles 1999) and ended with an edited country collection that had few deterministic conclusions (Obinger, Leibfried, and Castles 2005). There are remarkably few such studies in the literature on federalism and social policy (or federalism in general). Some areas such as health are starting to see explicitly country-comparative chapters with a greater or lesser degree of templating that is a first step toward comparability (Fierlbeck and Palley 2015; Costa i Font and Greer 2013), including work for the Forum of Federations, as well as impressive and forward-looking collections on federalism as a whole (Kincaid 2019; Detterbeck and Hepburn 2018; Colino, forthcoming). The question is how to do more systematic research on federalism and social policy that identifies more consistent and solid findings.

How to Analyze Federalism

Our approach is institutionalist and configurational. As institutionalists, we view federalism as a political institution that can be analyzed like most political institutions, one that interacts with the territorial politics of the country but that is, in itself, scarcely more determinative than electoral rules, bicameralism, or any other major political institution. As configurative analysts, we believe that untangling the complexity of case studies is more valuable than trying to identify the average impact of and variation in single variables.
Federalism as a Political Institution

There are four key implications of our institutionalist perspective on federalism. First, federal institutions and social policies are sticky: once a whole society has oriented itself around a given institutional framework, sudden change is unlikely and a blank slate more unlikely still (as we saw, e.g., when numerous post-Communist states in Europe, confronted with what might seem to outsiders like a blank slate, repeatedly picked up institutional forms from their brief interwar histories or retained elements of their Communist constitutions; Inglot 2008).

Second, federalism’s meaning and effect are always being renegotiated at the periphery. For example, the United States and Australia have seen a long process of erosion of state autonomy and power. That process has gone along and often been obscured by the simultaneous expansion of state resources and professionalism in both countries as part of a general postwar development. There was no single decisive moment when subnational governments lost power in either country, though in retrospect we might point to the New Deal in the United States and to World War II’s creation of new federal tax powers in Australia as critical junctures that cleared away legal obstacles and created an exploitable vertical fiscal imbalance. In Australia this is particularly clear. Its twenty-first-century Liberal-led coalition governments simply appropriated a larger role in key areas like labor law and used their spending power more aggressively. The erosion of Australian state power was striking, but it happened through a change in the way policy was made. Consulting the Australian states, simply put, came to matter less in twenty-first-century Australian politics. Even when conservatives try to reduce federal power, as with the American Republicans’ efforts to nibble away at the Commerce Clause justification for federal social policy, they are likely to support preemption of state efforts to improve welfare programs. These cases confirm that while there are critical junctures, often visible at the time, institutional evolution is usually a slow process that almost necessarily takes place every day as actors work within and push the limits and powers of different roles and organizations.

Third, federalism is not territorial politics, although federalism and territorial politics shape each other. The territorial politics of a country refers to the way territorial realities, the underlying social, economic, and cultural geography of a country, interact with its politics. Those politics need not be
formally federal. For example, the United Kingdom was a long-standing multinational union state with consistent and important territorial politics for its entire history. At no point has it been a federal state as lawyers, or even those interested in the government of England, would see it (Mitchell 2007). The same holds for Italy, Spain, and Belgium, which had vigorous territorial politics even when they were formally unitary and strongly centralized states. Federalism certainly shapes territorial politics and can create it by drawing boundaries, distributing resources on either side, and inducing elected politicians to contest those distributions. But it is not the same thing, and to attribute nationalism or particular forms of territorial politics to the mere fact or particular operation of federalism is risky. This is visible in the fact that we still have a debate, after decades if not centuries of thought and experience, about whether granting power to territorially concentrated groups increases or decreases secessionist pressure.

Fourth, and finally, federalism is shaped by policy as much as by law. In established welfare states, such as those found in all the wealthy countries and most middle-income ones, the organization of existing programs creates a wide variety of constraints. There are administrative difficulties in changing financing schemes (e.g., moving between social insurance and tax finance or centralizing and decentralizing existing programs). Political constituencies of all kinds defend existing administrative practices. Policy capacity is shaped by the implementation of policy and then represents some governments and interests better in further debates than others. In short, policy legacies shape politics and the meaning of federalism.

**Configurational Analysis**

Our approach is *configurational*, meaning that the configuration of different variables is what explains a case. This contrasts with the variable-based logic of, in the purest form, a regression equation that essentially builds an explanation of an outcome by stacking different variables atop each other. Rather, we argue for exploiting the case study method and its attention to the interaction of multiple variables.

We essentially found that a two-step process is useful. The first step is to identify countries where the federation contains, and in most cases is explained by, the presence of a stateless nation. These substantially overlap
with the “Rokkan regions” (Hooghe et al. 2016). They are the regions that were never fully incorporated into the dominant territorial states, typically because they were too strong to incorporate (Catalonia, Scotland) or too costly to incorporate relative to their resources (Galicia, Wales). Several comparative quantitative analyses have found that the presence of stateless nations produces greater and different levels of autonomy than normal regions without a strong national ascription (Adolph, Greer, and Massard da Fonseca 2012; Hooghe et al. 2016). A quick look at the politics of multinational states, notably Belgium, Canada, Italy, Spain, and the United Kingdom, shows this tendency to asymmetry and special politics in and status for their stateless nations.

The presence of a stateless nation produces a politics built around a territorial cleavage between different identities both within the region and between the region and the rest of the country. Other cleavages, such as those between rich and poor regions, are easier to bridge because class politics need not focus on territorial divisions and because interregional fights for distribution do not always gain much traction with voters. But most stateless nations have politicians who regard more autonomy for them, and a central state that will respect their preferences, as a good in and of itself. Their impact on central state politics and institutions is often hard to overestimate.

In recent decades, single, often center-left, parties bridged the gap between politics of the various nations. Even if we ignore their professed commitment to multinational comity and class rather than identity politics, they were dependent on votes from those regions to establish statewide power and therefore were obliged to aggregate different territorial interests. Neither the nationalist parties of the stateless nations nor the right parties of the dominant nationality had such an obligation, and both could enjoy the flexibility to unite in pursuit of class interests or to build cross-class coalitions using nationalist appeals.

There are a host of further interactions with institutions that we discuss in this volume and that some other key scholars consider (Rogers 2015; Gibson 2004; Gerring and Thacker 2008). Much research still needs to be done on working out how the configurations of different institutions matter, for example, how and under what conditions federalism and the separation of powers interact. It seems clear that the key divisions blocking American welfare state generosity and redistribution lie in the...
separation of powers and underlying social interests rather than federalism per se, while, in the Westminster-style, unified parliamentary system of Canada the institutions dispose the entire system toward a style based around executive summity and negotiation (Simeon 1972). Centralizing power within the governments of a federal state leads to more competition, options for intergovernmental collaboration (Wallner 2014), and also a level of explicit intergovernmental conflict that a system with extensive internal divisions of power within governments does not seem to produce.

Methodologically, a configurational approach should be built on the comparative method and process tracing. The comparative method is derived from John Stuart Mill’s methods of difference and similarity and is best expressed through Boolean logic (Ragin 1987, 2009). It asks how configurations of variables lead to an outcome, accepting that no variable will necessarily have consistent or any effects but can have clear and explicable effects in context. The comparative method sometimes answers questions, sometimes highlights different paths to a route that can be studied, and also allows us to identify marginal and exemplary cases for further study. That further study would be ideally conducted through process tracing (Beach and Pedersen 2013), that is, by analyzing the development over time of the interaction between, on the one hand, federalism and, on the other hand, territorial identities, the construction of interests, formal political institutions, and policy legacies within specific policy areas. This type of analysis could also bring in low- and middle-income federations like Argentina, Brazil, India, and South Africa to increase the number of cases and feed configurational analysis with factors such as colonial legacies.

Explaining the Four Main Country Cases

This section brings together our configurational analyses from the different chapters to show how a richer, case-based study of federalism and its interaction with identities, interests, policy legacies, and other institutions helps to explain the distinctive social policy regimes of our four main country cases: Belgium, Canada, the United States, and Spain. In the previous chapters we used them as examples of various dynamics; in this section we show how our approach explains their stories. All four countries regularly baffle outsiders; how can our approach make them less puzzling?
Belgium

The political development of Belgium is inseparable from territorial politics and identities (Deschouwer 2009). The attempt by the country’s Francophone bourgeoisie to build a nation defined by the French language and culture, supported by a strongly centralized state functioning exclusively in French, unleashed processes of territorial politics that eventually transformed not only the political institutions of the country but also its civil society (McRae 1986). Belgium was not originally multinational insofar as the early Flemish movement, led by a Dutch-speaking petty bourgeoisie as well as the clergy, sought to infuse the Belgian national identity with Dutch features rather than to promote the notion of a Flemish nation. The struggle of the Flemish movement in the nineteenth and early twentieth centuries was not simply about identity; it was also about interests insofar as breaking the French-speaking political, social, cultural, and economic dominance of Francophones necessarily involved political and institutional change. As the Flemish movement’s claims to reconfigure Belgium fell on deaf ears, the notion of nationhood and of a Flemish national identity began to grow. Although there was a small stream within the Flemish movement that sought the independence of Flanders beginning in World War I, the main objective of the movement was the transformation of the Belgian unitary state into a federation. This objective was vigorously opposed by Francophones through the first two-thirds of the twentieth century. Whether in Wallonia, Brussels, or among the minority in Flanders, the centralized unitary state seemed to Francophones a sine qua non condition for a modern Belgian nation infused by the French culture and language. Powered by early industrialization in the south of the country and even showing some international might through colonial ventures in Africa, Belgium had, by the mid-twentieth century, the outward appearance of a small but strong European democracy. The construction of the welfare state following World War II both reflected and participated in the Francophone project of Belgium. The welfare state, although Bismarckian in nature to accommodate the ideological segments of Belgian society (Christian Democratic, Socialist, and Liberal), was firmly rooted in the centralized unitary state. It would also represent an enduring legacy of the “old” Belgian state when Flemish nationalism and other territorial movements sparked the transformation of the territorial structuring of the country.
In the immediate aftermath of World War II, territorial identities appeared to have taken a step back while the Belgian state seemed stronger than ever. The Flemish movement was (temporarily) discredited after some of its members had hoped that a victory of Nazi Germany could trigger the breakup of the country. The welfare state was put into place. The economy was booming. Colonialism remained. Beneath that surface, territorial politics were rapidly evolving. Some decades after universal (male) suffrage was introduced (by abolishing plural voting in 1919), Flemings were finally in a position to translate their demographic majority into political power. The Flemish movement’s struggle for federalism was intensifying. The Flemish nationalist party Volksunie and its program for the federalization of the state emerged in this context. The Flemish movement’s foremost objectives were linguistic and cultural in nature: to consolidate Flanders as a monolingual community animated by Flemish rather than Francophone culture. The political crisis that revealed, expressed, and increased tensions between Flemings and Francophones in the 1950s and 1960s had substantial linguistic and cultural content (e.g., the Flemish drive to terminate all French-speaking teaching at the University of Leuven, a world-renowned university located in Flanders but that functioned in French). Multinationalism had fully arrived in Belgium.

These tensions split the political parties along linguistic lines, a unique outcome for a liberal democracy that still exists to this day. For Francophones, the dream of this Belgium as a Francophone nation structured by Jacobin principles (*la Belgique de papa*) was evaporating. In addition to the sheer unsustainability of the centralized unitary Belgian state in the face of intense Flemish pressures for reform, an important structural change in interests transformed the vision and the calculations of Francophones when it came to the institutional future of the country. Once the economic motor of Belgium with its heavy industries such as steel, Wallonia was on the economic decline in the 1960s while Flanders’s economy was improving. That Flanders became wealthier than Wallonia had two major consequences for Francophones as they considered the future of the country. The first was the dissolution of the notion of French-speaking Belgians whose identity and interests were completely aligned. Brussels, with its strong majority of Francophones, was not experiencing an economic decline similar to that of Wallonia thanks to its service industry and its status as the capital of the then European Community. Identity differentiation between Wallons and Brusselers developed as a result, as did territorial politics: regional-
ism in Wallonia and something closer to jurisdictionalism in Brussels. The second consequence was that many Walloons were no longer comfortable leaving economic development and industrial policy in the hands of a Belgian state where Flemings were now much more present. Hence, a meeting of interests of sorts between the two communities led to the beginning of a federalization process. With the first reform of the state in 1970, then prime minister Gaston Eyskens declared la Belgique de papa dead.

Belgian federal institutions are atypical in many ways, including the existence of two types of constituent units (Regions and Communities), stemming from the distinct visions of Francophones and Flemings, and the significant powers acquired by these units. It is also atypical for its open-ended and dynamic nature. Federalism in Belgium did not come with a specific blueprint. The first reform of the state set a precedent for a purposively incomplete constitutional and institutional change (Deschouwer 2006). That reform may have represented the end of the Belgian centralized unitary state, but it certainly did not involve any kind of consensus of what the future Belgian state would look like, much less how to get there. In the immediate term, its main objective was to manage a political crisis such as the division of the University of Leuven and rising intercommunity tensions. Subsequent reforms would follow a similar logic: tackling pressing and immediate political problems by further decentralizing the country yet leaving the process unfinished. Repeated Belgian state reforms (there have been six) give the impression of instability and improvisation. While this impression may correspond to reality, the dynamic nature of Belgian federalism has helped contain secessionism in Flanders. Unlike in Québec, Catalonia, and Scotland, support for independence has remained low in Flanders (Huysseune 2017); Flemings know there is another decentralist reform just around the corner, which significantly removes incentives to pursue independence as a self-determination objective (Lecours 2021).

The first reform of the state in 1970 was a turning point in the political development of Belgium not only because it ushered in federalism (as an open-ended process) but also because it featured the adoption of consociationalism (Deschouwer 2006). Consociationalism involving the two main language communities was operationalized by a rule stipulating that Belgian governments could only be formed by an equal number of Flemish and Francophone ministers. Hence, Flemish parties accepted that the Flemish demographic majority would not translate into decisive political power and that instead all Belgian federal governments would be coali-
tions between Flemish and Francophone parties. Federalism in Belgium needs to be understood in the context of consociational democracy and its own institutional practices. Although Francophone parties have typically favored the status quo (Nous ne sommes demandeurs de rien, “we claim nothing,” has become a favorite saying of Francophone politicians), regular state reforms as sought by many Flemish parties have been necessary for federal governments to be formed. In other words, Francophone parties vetoing constitutional and institutional change can compromise the long-term survival of the system, an outcome they do not want. Thus, consociational democracy involves constraints for the decentralization of Belgium (because Francophone parties can block reforms) but also generates decentralist change (because Francophone parties cannot afford to always block state reforms, lest they fuel and radicalize Flemish nationalism).

Federalism has helped the consolidation and the expression of the Flemish national identity (Lecours 2001). Rather than being carried by the amorphous Flemish movement, this identity has crystallized in the autonomous Flemish political institutions. These institutions have also facilitated the construction of Flemish interests above and beyond ideological families. Early in the federalization process, these interests were defined primarily in linguistic and cultural terms. Then, beginning in the late 1980s and the 1990s, they took a materialist turn as the differences in wealth between Flanders and Wallonia began being examined, on the Flemish side, through the territorial prism associated with federalism. It is in this context that the welfare state, more specifically the country’s Social Security programs, came to be in the crosshairs of Flemish nationalism (Béland and Lecours 2008). From the Flemish perspective, a portion of Flemish wealth was being transferred to Wallonia through the Social Security system. Many Flemish parties (the nationalist parties, like Volksunie and the far-right Vlaams Blok/Vlaams Belang, but also the traditional powerhouse of Flanders, the Christian Democratic Party) started to advocate for the partial decentralization of Social Security. For Flemish parties on the right, like the Christian Democrats and also the Liberals, the decentralization of some social programs also had the added advantage of allowing Flanders to tailor social policy to a right-of-center agenda (e.g., an activation approach to unemployment). In fact, the Flemish identity is very much conceptualized in terms of individual autonomy and entrepreneurship, a view that drives the political and policy agenda. The connection between Flemish nationalism and right-of-center political positions leaves socialist
and environmentalist forces in Flanders concerned with the consequences of decentralization, especially on social policy.

In French-speaking Belgium but especially in Wallonia, where the Socialist Party has always dominated, the potential decentralization of significant parts of Social Security has been viewed with even greater concern. Not only would Francophone Belgium be hampered in its ability to maintain existing social protection, but the further reduction of the role of the federal government in the life of Belgians would be, for Francophones, tantamount to the end of Belgium as a meaningful political community. Thus, Francophone parties strongly and successfully opposed, until the sixth reform of the state, the decentralization of any component of Social Security. In 2011–12, after government formation crises prompted new questions about the viability of the country, Francophone parties agreed to the decentralization of family allowances (Béland and Lecours 2018).

Despite the sixth state reform (2011–14), the Belgian welfare state remains strikingly centralized considering that so many policy fields have been placed under the control of Regions and Communities and that Flemish pressures to decentralize more components of Social Security have been intense. In other words, it seems that the welfare state is still standing at the center of the Belgian state, while the dynamics of territorial politics, and the corresponding process of federalization, have taken most everything else away from the federal government. Consociational arrangements are the foremost reasons for this mostly static situation in the territorial governance of Social Security. Not only do Francophone parties have a veto over constitutional change, but also consociational democracy has presented opportunities for co-opting Flemish nationalist parties by offering them a chance to participate in a federal government if these parties moderate their constitutional demands or accept to forgo them completely while in the federal coalition. This is what happened with N-VA between 2014 and 2018, as the Flemish nationalist party decided to use political power at the federal level in an attempt to implement some of its right-of-center socioeconomic agenda, even if it meant placing its constitutional agenda on the back burner. The legacies of the welfare state in terms of allocation of authority have also made it more difficult to decentralize major components of Social Security. The Belgian welfare state was constructed before the beginning of the federalization process, and its Bismarckian workings mean that the “social partners” (trade unions and
employers’ organizations) are reluctant to support change in the territorial governance of Social Security.

Federalism has strongly shaped contemporary Belgian politics, including debates over the territorial structuring of the welfare state. The federalization of the Belgian state has involved an open-ended process with a strong decentralist dynamic that obviously begs the question of which level of government should formulate and implement social programs. Moreover, federalism has crystallized, consolidated, and even created (in the case of Brussels) territorial identities that would become linked to specific interests when it comes to the governance of the welfare state. Thus, federalism in Belgium is inextricably linked to territorial politics: most importantly Flemish nationalism but also Walloon regionalism and jurisdictionalism in Brussels.

Federalism is also the product of the development of Flemish nationalism; it therefore needs to be understood in the context of the development of multinationalism in the country rather than as a mechanical arrangement between governments. In fact, political parties, which are themselves creatures of both the historical ideological families and territorial politics, are, much more than the governments of the federation, the primary agents of both “normal” and constitutional politics. In this context, the relationship between federalism and the welfare state in Belgium is strongly mediated by another institution that involves political parties as agents: consociational democracy. In fact, consociationalism structures Belgian politics in a way that conditions both pressures for the decentralization of the welfare state and resistance to it.

Canada

Unlike the United States and much like Australia, Canada did not break away from the United Kingdom in a violent fashion. Instead, Canada was created in 1867 as a dominion composed of four provinces: New Brunswick, Nova Scotia, Ontario, and Quebec. The relatively centralized federal system adopted in 1867 reflected a political compromise between centralist country builders such as the first prime minister, John A. MacDonald, and politicians supporting a more decentralized federation, many of whom hailed from Quebec, where support for the protection of Catholicism and the French language meshed with the principle of provincial
autonomy. Over time, other provinces were added, which sometimes exacer-
ated internal tensions within the young federation. For instance, the
creation of Alberta and Saskatchewan in 1905 led to a passionate debate
about provincial control over natural resources, which lasted for several
decades (Janigan 2012). Moreover, some territories were reluctant to join
the federation, as they were afraid to lose some of their autonomy. A case
in point is Newfoundland, which, after two highly contested referendums
and much debate, only became a Canadian province in 1949. Although
Quebec has consistently promoted provincial autonomy since 1867, other
key provinces such as Ontario (early on in the life of the federation) and
Alberta (more recently) have also supported this agenda at different points
in time, a dynamic that explains in part why Canada is such a decentral-
ized federation (Lecours 2019). Canada has long been and remains a coun-
try with strong territorial identities.

While in Quebec a national identity exists that has been constructed
historically from linguistic and cultural distinctiveness, in other parts of
the country, particularly in the West, regionalism has been fed by the polit-
ical economy of natural resources in the context of relatively weak power
at the federal level. Indeed, the “natural governing party” of Canada, the
Liberal Party of Canada, has never had much support in provinces like
Alberta and Saskatchewan. The western weakness of Canada’s principal
brokerage party increased the resentment felt toward Ottawa when the
federal government was viewed as making economic decisions (like oil
price control in the late 1970s or decisions on pipelines more recently)
detrimental to Western Canada. Even in provinces where there is neither
nationalism nor regionalism, jurisdictionalism impacts Canadian federal-
ism through strong provincial identities. Canadian provinces are genuine
political communities with their own distinct political class, articulating
geographically bounded collective interests and agency in the federation.
All these territorial identities can intersect with social policy in a myriad of
ways, but the national identity in Quebec has been the most consequen-
tial for the welfare state in part because progressive social programs in the
province have been hailed as a distinct feature of the Quebec nation for
several decades (Bélard and Lecours 2008; van den Berg et al. 2017).

It is important to stress that the link between nationalism and social
policy is contingent and that, for several decades, during the 1930s and
after World War II, Quebec conservative governments from the Union
Nationale typically opposed federal and provincial social policy expansion
Putting Federalism in Its Place

in the name of a model of provincial autonomy grounded in a pro-market ideology that meshed with Catholic family values (Bourque and Duchastel 1988). For instance, after the war, the Quebec government strongly opposed federal family allowances enacted in 1944. Yet, because many residents of Quebec received such benefits, opposition to the program declined over time, which means that sometimes perceived material interests can trump the affirmation of provincial identity, which until the 1960s proved rather conservative in Quebec (on the family allowance debate, see Marshall 2006). This points once again to the variable nature of the relationship between substate nationalism and social policy. As happened in Quebec, nationalism can change the contours of its community of reference, its symbols, its agenda, and its ideological underpinnings, which can affect how it relates to the welfare state (Béland and Lecours 2008). This points to the fluid nature of collective identities as they relate to social policy, in federal systems and beyond.

Federalism in Canada is shaped not only by territorial identities, especially Quebec nationalism, but also by the interests constructed by the enduring weight of the distinct regional political economies that have shaped the country since the beginning. In the four Atlantic provinces (New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador), reliance on industries such as fisheries and agriculture has long meant a lower than average economic development. Over time, this has led to higher levels of unemployment and accelerated population aging, as younger workers and families leave to find work in other, wealthier parts of the country. In the past, these workers and families would often move to Ontario, which was the industrial heartland of the country for more than a century. Economic growth in Ontario after World War II helped generate fiscal revenues that helped Ottawa finance a growing federal welfare state. In recent decades, however, Ontario has lost economic ground and become less wealthy than Alberta, which has accumulated wealth through its large energy sector. More generally, in recent decades, economic growth and demographic expansion have strengthened the economic and, to a lesser extent, political weight of the four Western provinces: Manitoba, Saskatchewan, Alberta, and British Columbia. In the meantime, the relative demographic weight of Quebec and the Atlantic provinces is declining. Quebec, because of its still potent nationalist movement, remains at the political center of the federation despite its relative demographic decline. Ontario, by far the largest province, remains at the center of Canadian
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politics, in part because its capital, Toronto, is the economic metropolis of Canada after taking the title from Montreal in the 1970s.

In Canada, perceived regional interests vary greatly from province to province. These differences are particularly prominent in the field of fiscal federalism, where the equalization program created in 1957 features provinces with a lower than average fiscal capacity, which receive equalization payments from Ottawa to allow them to offer relatively comparable services without imposing an excessive fiscal burden on their residents, and provinces with higher than average fiscal capacity, which do not receive such payments. The equalization program, although often dubbed “the glue of the federation,” sometimes feeds regional alienation and resentment toward both the federal government and the receiving provinces. Yet, these provincial interests with regard to equalization and fiscal federalism are not static; they evolve over time due in part to changing economic and political circumstances. For instance, in the mid-2000s, when Saskatchewan stopped receiving equalization payments amid a regional economic boom and changes to the federal program, New Democratic premier Lorne Calvert announced that the province would sue the federal government to get equalization money. A few years later, his conservative successor, Brad Wall (Saskatchewan Party), decided to cancel the move, saying that the province did not need the money and that having a fiscal capacity above the national average was a good thing. After the regional economic boom ended in 2004 due in part to a sharp fall in oil prices, Premier Wall began to wage an attack on equalization, arguing the program was too generous. Because Quebec has received equalization payments since 1957, and also the most money in absolute terms due to the size of its population, attacks against this program often target the Quebec government (Béland, Lecours, et al. 2017).

Another federal policy that exacerbates territorial politics is Employment Insurance, a program known as Unemployment Insurance before 1996 (Campeau 2005). This is the case in part because eligibility criteria and benefit levels vary from one employment region to the next, as workers living in higher unemployment regions are advantaged over those living in lower unemployment regions. Because there are more than sixty regions in total, each province typically features several of them, so economic interests can be quite fragmented. Workers from Winnipeg, the capital of Manitoba, might face more stringent eligibility criteria and lower benefits than people living in the north of the province, where unemployment
levels are much higher on average. The existence of asymmetrical benefit levels and eligibility criteria across the country is the product of a political compromise that seeks to balance regional need with fiscal restraint. In other words, when the time came to reduce benefits as early as the mid-1970s, efforts were made to reduce the pain inflicted on workers living in poorer, higher unemployment regions. This political compromise remains in place today, which is a source of territorial political tensions (Courchene and Allan 2009).

In Canada, political institutions shape the development of social policy. Regarding federalism per se, the constitutional division of powers gives control of major policy areas such as education and health care to the provinces. In other areas such as pensions and unemployment benefits, provincial approval for constitutional amendments proved necessary for the federal government to step in and create programs such as Unemployment Insurance in 1941, Old Age Security in 1951, and the Canada Pension Plan in 1966 (Banting 1987).

In terms of political institutions, considering the existence of parliamentary government with a first-past-the-post electoral system, the main goal of the two major political parties, the Conservatives and the Liberals, is to form a majority government. This necessarily entails the formation of a cross-regional coalition of political force in which having MPs from all or at least most of the key regions of the country is imperative. The largest province in the country, Ontario, is central to the parties’ power aspirations. Quebec, the second largest province, is a source of potential tensions within political coalitions, as the need to accommodate Quebec governments remains a central aspect of Canadian politics. Resentment toward Quebec elsewhere in the country, especially in Western Canada, is often felt particularly among Conservatives, who are sometimes frustrated by efforts made by their leaders to reach out to Quebeckers and also to Atlantic Canadians as the Conservative Party requires a particularly heteroclite coalition of political forces to govern (fiscal conservatives, social conservatives, Western populists, and soft Quebec nationalists). Once constituted, Canadian federal governments are always formed by only one party. Moreover, cabinets are very “federal” insofar as they include ministers from all regions (and typically all provinces) in the federation.

Institutionally speaking, the absence of a democratically elected upper house (the Canadian Senate is appointed) has strengthened provincial governments, since the Senate’s democratic deficit has meant that sena-
tors cannot credibly claim to represent provinces and regions, as was initially intended. Also, because of this institutional feature, Canada’s central institutions have not been a forum of intergovernmental relations. Rather, Canadian federalism works through a dense network of federal-provincial relations where provincial officials and governments enjoy strong democratic legitimacy.

Moreover, within the federal arena itself, the existence of social democratic parties like the New Democratic Party has helped increase pressure on federal governments, especially those without legislative majorities, to expand social programs and allocate more fiscal resources to the provinces, which play such a central role in the allocation of health, education, and social services. According to Antonia Maioni (1998), this mix of partisan pressures from third parties and minority governments at the federal level helped bring about universal health care in the mid- to late 1960s. Simultaneously, according to Bruno Théret (1999), horizontal redistribution associated with the federal equalization program has reduced fiscal competition among the provinces while allowing poorer ones to offer adequate services to their population. This situation contrasts strongly with that witnessed in the United States, a country without an equalization program where there is more tolerance for regional inequalities and fiscal competition among constituent units (Béland and Lecours 2014).

These policy legacies have created a decentralized and fragmented welfare state in which the central social policy role of the provinces has proven extremely hard to reverse. On the one hand, Quebec has developed distinct social programs in areas such as education and family policy. The strength of Quebec nationalism and identity and the political need to include the province in coalitions of political forces make it extremely hard for Ottawa to invade provincial jurisdictions and promote a centralizing agenda. Simultaneously, provinces other than Quebec also seek to protect provincial autonomy. Even when this push for provincial autonomy is related to issues such as natural resources and the environment, the overall dynamic makes it more difficult for the federal government to develop national social programs.

The existence of a high level of provincial fiscal autonomy, combined with a significant role of the federal government in horizontal and vertical fiscal redistribution, makes it possible for the provinces to keep operating large social programs on their own. Simultaneously, in part due to pressure from citizens and businesses, provinces are pushed to provide competitive...
services, something that is especially striking in the field of public education. Jennifer Wallner (2014) has shown that while Canada does not even have a federal department of education, the country’s decentralized education system is doing well by internal standards. She argues that fiscal policy and the blend of competition and coordination between executives help provinces succeed in this area. Hence, policy legacies of provincial autonomy have fostered the development of a decentralized social policy system in Canada. The complex system of intergovernmental relations and also the fiscal arrangements that stem from decentralization involve much political conflict, but they are also key management tools and processes for a territorially diverse federation whose existence can never be taken for granted. In other words, federalism as it is practiced in Canada is necessary to keep the country together, even as state-building competition between Ottawa and the provinces mobilizes territorial politics amid changing economic and social circumstances (Banting et al. 2006; Béland and Lecours 2008; Théret 1999).

Although Canadian politics is strongly conditioned by federalism, both as a contested political idea and a set of institutions, it is far from being the only factor shaping the welfare state in Canada. The economic inequalities the welfare state is meant to address typically transcend provincial boundaries, as the Employment Insurance program suggests. Although social policy debates in Canada are often framed as a struggle between federal and provincial governments, they also involve cleavages of class, age, gender, and ethnic origins that are not neatly encapsulated in the dynamics of Canadian federalism.

Spain

Neo-Marxist analyses are common in territorial politics since the resurgent mobilization of stateless nations coincided with the last efflorescence of Marxist theory in the 1970s. In most cases, these analyses failed because they forced complex politics into simplistic frameworks, as most famously seen with Hechter’s work on “internal colonialism” (Brand 1985; Hechter 1975; Ragin 1976). In the Basque Country and Catalonia, they work surprisingly well, as seen by the overlap between Marxist (Solé Tura 1967) and non-Marxist political economy analyses (Díez Medrano 1995; Greer 2007). Mapping Catalan and Basque politics in terms of big, small, and medium
bourgeoisie, a working class, and a fight to define politics along class or ethnic grounds and gain control over a state explains much. In particular, it directs us to certain actors who have existed for over a century of Catalan politics, including a nationalist small bourgeoisie, a regionalist set of big businesses that resist being trapped in a small independent state with a strong left, a strong left that is divided between Catalan elites and a Spanish-speaking group, and anti-Catalan Spanish identifiers (often called Lerrouxists by their enemies, after a Second Republic politician), who are generally under attack from all the preceding groups. Each group has a relatively clear party at any given time and different degrees of freedom to act and interact.

As discussed in chapter 3 on interests, Spain has a long history of distinctive regional political economies that were often in conflict. Its geography, if nothing else, has long encouraged fragmentation into different economic regions (Grafe 2011; Ringrose 1996). From the mid-nineteenth century to the Spanish Civil War, the principal regional political challenges came from Basque and Catalan nationalism, based in Spain’s traditional industrial centers, and from the political elites who controlled labor-repressive agriculture in the South, especially Andalucía. Each of these different political economies’ elites had different relations to Spanish politics. Basque industrialists, focused in sectors with large capital requirements and considerable exposure to public contracts, rapidly allied with the state and financial elites in Madrid, producing both nationalist and socialist responses. Catalan elites, with many more, smaller businesses in light industry that depended on access to consumer markets for textiles, created a more elite-led nationalism with less clearly secessionist goals that tended to use the demand for self-rule, and local successes in elections and in self-rule, as a bargaining chip in Spanish politics (Diéz Medrano 1995). The major landlords of Andalucía, Extremadura, and New Castile, meanwhile, occupied a core position in Spanish politics under different regimes, controlling a huge rural authoritarian enclave.

Each of these three political forces made different demands on the state with different approaches, but it was the response of the Andalucian elites to the promise of greater equality, democracy, and the rule of law in their authoritarian enclaves under the Second Republic, not secessionism in the north, that triggered the Spanish Civil War (Malefakis 1970).

As far as identities are concerned, this point is crucial to understanding the role of nationalism and national identities in Spain now. Spanish politics and the welfare state in Spain are incomprehensible without understand-
ing the politics and impact of Catalan and Basque nationalism, but its slowly developing welfare state was in large part due to the state responding to the preferences of labor-repressive agricultural elites and making only strategic concessions to other forces under the Francoist dictatorship.

The impact of Catalan and Basque nationalism on the Spanish welfare state today is nonetheless dramatic. The state of the autonomies had to happen in some form because no regime would be stable that continued to repress them and because of the considerable pressure Basque and Catalan nationalists exerted at all levels of politics during the transition. The creation of the Basque and Catalan ACs triggered a competition among other regions’ political elites to form their own regions and level up their powers, creating a constant competitive dynamic in which Catalan (in particular) politicians sought asymmetry to their benefit while leaders of other regions sought to generalize powers.

The Catalans had more impact than the Basques in the design of policy, in part because of Catalonia’s size, its economic power, and the occasional pivotal role of Catalan parties in the Spanish legislature, but also because the Basques and Navarre operate under a separate financing regime that works to their benefit but is not seriously proposed—or viable—for the other regions. The Catalans, part of the “common regime” of AC, both pay considerably more than many other Spanish regions and, by virtue of their membership in the regime, affect its politics.

The development of the state of the autonomies, the Spanish welfare state, and the post-Francoist Spanish economy happened simultaneously, in the 1980s and 1990s, and produced a Spanish version of a seemingly paradoxical story that we see elsewhere. The Spanish economy harmonized to a considerable degree; the basic sectoral composition and lifeways of different parts of Spain are more similar now than they ever have been, united as part of an integrated economy, with shared media, firms, and other integrating forces. The development of a territorially extensive welfare state helped with this harmonization, removing the grinding poverty that had long marked parts of the country as distinctive, providing services that were long unavailable outside the richest cities, and employing a professional middle class distributed across the country. In other words, the postwar and post-Franco years were those of territorial harmonization due in part to Francoist industrialization and in still larger part to the democratic welfare state.

At the same time, as Spain became more homogeneous in many ways,
with Spanish middle classes living in similar houses, working similar jobs in similar cities, and enjoying similar food and leisure even if they did it while speaking in Catalan or Basque, the very same development of a democratic and decentralized welfare state created a new generation of nationalists and regionalists. Where once the unevenness of Spanish industrial development was grounds for forces such as Catalan nationalists who mobilized to perpetuate and develop their economic model, the new Spain, whatever the ongoing territorial inequalities, no longer hosted politically incompatible political economies. No longer were political forces dependent on policies tailored to Andalucian labor-repressive agriculture, Basque heavy industry, or Catalan light industry. Multinational capital, real estate speculation, European Union integration, and the enjoyment of European sun seekers shaped economic policy for all Spanish governments. But a new industry created middle classes tied to territory—the public sector of the state of the autonomies. The result was not just a transformation of the social bases of nationalism and regionalism in places like Catalonia but a reinforcement of regionalism (and, in Galicia, nationalism) as the power, resources, and autonomy of the regions became a preoccupation and basis for the political action of their public sectors.

In other words, Spain is marked by the legacies of conflict over the state between distinctive political economies, an overlapping but by no means identical conflict over different nationalisms (nobody should conflate Basque nationalists and Basque economic elites) and, now, in an increasingly homogeneous but unequal Spain, an expansion of regionalist and nationalist politics grounded in public sector institutions.

Management of the nationalist tensions, in particular, shaped the development of Spanish democratic institutions. Given the history of conflict, which Spanish transition leaders knew well, integrating Catalan and Basque politics in the Spanish democratic settlement was a priority. This is visible not just in the regional tier but also in a relatively majoritarian electoral system that rewards concentrated voters (such as Catalan nationalists or supporters of the big Spanish parties) and punishes thinly spread groups such as the left or Greens.

There is a structural awkwardness in Spanish coordination that is created by a party system in which the Partido Popular has little support in Catalonia and, increasingly, in the Basque Country. Effectively, the right in Spain is divided between the PP, latterly Ciudadanos and Vox, and the right-nationalist PNV and the successor parties to the former Catalan
alliance CiU. Given this structure, right parties have an incentive to run against each other as contending nationalisms. Meanwhile, the Socialists and, to a lesser extent, Podemos are the only parties with a full spectrum of linkages around the country and with electoral dependence on Castilian, Catalan, and Basque votes, which means their natural position is one of multinational dialogue. As in other countries, a single center-left party’s linkages are useful to mediate disputes, solve collective action problems, and make policy, but the right has an incentive to activate nationalisms precisely as a way to box in the Socialists. Thus, for example, Catalan and Spanish politicians of the right forced the Spanish Socialists¹ declare for a unified Spain in the late 2010s, an electoral strategy that worked well for them and damaged the PSOE but plunged the country into a crisis.

Other Spanish linkages also work poorly. There is little constitutional shared rule, and various coordinating forums at best work to facilitate particular public policy areas. This is useful in the organization of clinical trials or organ transplants, but such technical connections hardly enable the development of a generous or responsive welfare state. As a result, linkages between Spanish governments and policy sectors are often weak and disproportionately within the Socialist family. Central governments routinely try to develop coordinating mechanisms, from aspirational substantive laws to consultative forums, but the politics of credit and blame are so territorial, as is the party system, that they defeat even seemingly positive-sum policy coordination efforts.

The institutional environment, as well as its creation, is unusually well documented due to the interest that the Spanish democratic transition attracted and its recency. It reflects and encourages a strongly territorialized politics—a politics of “who not what.” The ACs and electoral system encourage geographically concentrated majority parties, which sometimes create linkages—as when the Catalan CiU negotiated support for Socialist and then PP governments in the 1990s or as the Socialists routinely try when in office—but also create incentives to campaign constantly for more self-rule and resources to the regions.

The Spanish Constitutional Tribunal is a constant target of political argument, which should be no surprise, and it has often played a role in reducing the autonomy of the ACs. The tribunal did strike down the LOAPA—a 1981 law that would have slowed and equalized the devolu-

1. The Spanish Socialist Workers’ Party, PSOE.
tionary process—but quite a lot of its harmonizing content was still passed later and without political backlash in many cases. Later, the tribunal’s elimination of much of the revised Catalan statute of autonomy in 2010 set the stage for a major conflict with Catalonia that damaged the legitimacy of the Spanish constitutional settlement in Catalonia.

The regional financing system, meanwhile, solved critical challenges during the transition to democracy but has subsequently become a major source of political instability and the persistence of “who not what” politics. The Economic Agreement (concierto) has provided a high degree of self-financing for the Basque Country and Navarre, while the remaining fifteen ACs primarily finance their operations through revenue sharing and an opaque set of interterritorial compensation funds to which the Basque Country and Navarre do not contribute. While the concierto system could in theory be revenue neutral compared to the common regime, political considerations make it so favorable that it could not be extended to the other ACs (or even just to Catalonia), without upending the national accounts. The lack of transparency in both the foral and common regimes is thus a political feature of the system rather than a technical problem. As long as competencies were being transferred to the ACs and budget problems papered over, differences regarding the mechanics of financing could be resolved informally. However, the 2008 crisis created incentives for the central government to sharply restrict AC spending autonomy, thereby encouraging outbidding competition among Catalan nationalists eager to blame anyone but themselves for deep cutbacks in the regional welfare state.

Finally, the policy legacies that shape the Spanish welfare state today are ones set in the 1980s and 1990s when the welfare state was expanded across the territory and decentralized, responding to the previous uneven provision, which favored a few key workers, the Church, the wealthy, the urban, and in particular the elites of Madrid and Barcelona and a few other larger cities. This segmentalist pattern of benefits was clearly unsustainable in a democratic Spain (Gunther, Diamondorous, and Sotiropolous 2006).

Thus, the programs rolled out tended to be universalistic and tax financed, both because that is an effective way to create egalitarian services of similar quality quickly across territory and also because the Socialists were in office for most of these years and made social policy a priority. The result was a system built around tax-financed services provided regionally and an expanded set of Social Security programs run nationally (save for the particular program aimed at rural unemployment in the South, a solu-
tion of sorts to the remaining agrarian question). This tax-financed and universalistic welfare state, with its minimum social provision, national health service system, and state education, is partially undermined through the diversion of public resources such as school budgets to private providers known as concertado schools and tax incentives for private health insurance. In other words, the main forms of drift away from the egalitarian promise of the program design are in acceptance of or in support for middle-class exit into private or semiprivate provision, and the worry is that this will eventually undermine the services and political support for them.

What is the welfare policy profile that this configuration of factors produces? The Spanish welfare state is in many ways a success, with services accessible across the country, a high level of interterritorial redistribution that creates both good services and a territorially extensive middle class, and considerable resilience in the face of massive shocks from both the broader economy and austerity programs since 2008. It also, however, bears the marks of a territorially fissiparous party system with weak linkages only partially remediated by Socialist party linkages and various forms of executive federalism. In such a system of opaque and very contentious financing, soft budget constraints and debt, and constant renegotiations of the financing scheme, all sustain a politics of “who not what.” Spanish political institutions are well suited to a party system that reflects and thereby sustains centuries of territorially fissiparous politics with weak and contingent linkages among elites, and in the territorial state these institutions have even caused a rebirth of regionalisms and nationalisms—even when the country is as healthy, prosperous, and homogeneous as it has ever been.

The United States

What are some of the key variables that matter in explaining the United States and its relationship between social policy and federalism? The size of the country, its long federal history, its high number of veto points at each stage of legislation, presidentialism, a first-past-the-post electoral system, and its long-standing racial divide grown out of slavery are all important. That outcome today is a large welfare state that is relatively redistributive, entrusts certain groups (elderly, veterans, and middle class)
to federal welfare programs, and leaves the rest subject to state or joint state-federal programs. In other words, the “deserving poor” as viewed by political elites in a given era tend to enjoy a federal welfare state with strong elements of social insurance, and the undeserving poor are recipients of a state welfare program that often has punitive, behavior-modifying elements reminiscent of the Elizabethan Poor Law.

We can start with two key facts about the United States. The first fact is that its key historical cleavage is that of race, specifically between Black Americans and others (all racial categories are socially constructed, but the category of “white” in the United States is notably malleable, which is one reason to think “whites” might well remain a majority). This cleavage does not map onto territory. Instead, the territorial cleavage that led to the Civil War was between whites over the extent to which the economic system of chattel slavery was tolerable. Given that the slave system demonstrably required the enthusiastic support of the federal government, it was necessary for slave states to dominate the federal government, and the Civil War happened when their control of the federal government was broken by Lincoln’s election. The end of Reconstruction reinstated that Southern power in the federal government, in a form of shared rule that also made the Jim Crow regime possible and disenfranchised freed Black people (Gibson 2013). This story belies a number of myths that are still common in the United States: notably that the Civil War was about federalism and states’ rights rather than slavery and that “states’ rights” means the right of states to self-rule rather than to act with strong federal support for their preferred measures.

As with Spain, the mechanization of agriculture and urbanization changed the political economy of territory. Southern distinctiveness remained, but the economy of the South no longer depended on tightly controlled Black labor, while the Great Migration meant that the North gained large Black populations. The economy of Mississippi is now qualitatively much like that of Minnesota, particularly in the dominance of the service sector, but poorer and less well educated, with fewer nodes of economic and political power. Unlike in Spain, however, there was no other cleavage involved. A Spanish farm laborer’s grandchild in a Madrid suburb is a working-class Spaniard, whereas a Jim Crow sharecropper’s grandchild in Chicago rarely has any option not to be Black. Nor is there a Spanish equivalent to the constant American politicization of racial division. The use of racism to break up multiracial class-based coalitions has been a long-standing feature of American politics noted by political scientists and his-

torians (Marx 1998; Lieberman 2011; Acharya, Blackwell, and Sen 2020; Einhorn 2008). There is little about contemporary American politics to suggest that the strategy has lost its usefulness (Bartels 2020; Fording and Schram 2020; Mason, Wronski, and Kane 2021).

Where does territorial politics fit into the racial cleavage and regular efforts to use and reinforce it? Traditionally, much of the most visible racial discrimination was conducted by states and their local governments, though racial discrimination in federal programs such as housing policy was considerable and had major effects (Lieberman 1998; Katznelson 2005). It was states that enacted most of the Jim Crow laws, and it was the federal government that intervened, a century after the Civil War, to eliminate them. The backlash against racial equality has in part involved reducing federal rights protection (e.g., the extension of the Voting Rights Act). That is the logic that memorably led William Riker to state in 1964 that “if in the United States one approves of Southern white racists, then one should approve of American federalism” (Riker 1964: 155; see Volden 2004 for a discussion). In this framework, the long-standing association between states’ rights and racism should be no surprise.

But follow another thread: that of federal actions. Wherever there was a shared national framework, it had to be made supportive of Southern political elites. The South tended to have less turnover among its representatives because it was effectively a one-party Democratic state (Key 1950), and in a federal legislative system based on seniority, Southern politicians were extremely important. It would be surprising if they were to adopt a strategy other than their common one of supporting racial discrimination and extensive federal spending that could be directed to their co-ethnics.

State governments needed federal support to sustain racially discriminatory authoritarian enclaves, and accordingly Southern political elites put considerable effort into controlling federal politics (Mickey 2015). Once the Democratic Party began to split, with Northern parties becoming more committed to racial equality (Noel 2014), the power of Southern Democrats in the federal government began to erode. Soon enough, the electoral erosion of Southern Democrats began, in a process that by 2017 left white Democrats very rare across the South. At the same time, Northern racism became a major issue, which meant that the Republicans were able to create a largely white party out of Southern and Northern whites. By the time of the 2016 election, the racial cleavage fit with that of Republican and Democrat to an alarming extent and was exacerbated by Donald
Trump’s racial politics. The rise of racial politics, tied to Trump’s populism, also made pragmatic distributional policymaking harder.

In this story, the cleavage of Black and white gave federalism and territorial politics much of its meaning: authoritarian racist enclaves needed self-rule to operate and shared rule, often informal and structured by the Democratic Party, to survive. Without the particular labor-repressive political economy of the South described in chapter 3, which lasted effectively until the mechanization of the cotton industry started in the 1930s, the racial cleavage could persist, but the authoritarian enclaves had less economic logic. It should be no surprise that there has been a considerable nationalization of American politics since the 1950s and 1960s: not only has racial politics across the country become more similar, but also the distinctive labor-repressive economy of the South has vanished (or diffused, as in the widespread carceral state apparatus).

That is why Riker was wrong, by 1975, to write that “federalism was never the culprit in American racism, for the real cause of racist behavior is the preferences of whites. All that federalism ever did was to facilitate the expression of racist beliefs and the perpetuation of racist acts” (1975:155–56). Much of Riker’s later career downplayed the importance of federalism, making him one of the rare people, as Stepan noted, to both dominate and terminate the study of a topic (2001). But locating the problem in the hearts of whites omitted the political economy of race and federalism as an issue and, perhaps more surprisingly, paid little attention to the ways racial divides were used to preempt class politics.

If federalism gained much of its historical meaning from its role in protecting authoritarian enclaves, what now? It is today an institution that does not map onto a territorially concentrated constituency. Rather, it is one of many American institutions.

There, the second key fact about the United States comes in: its political institutions were designed, and have evolved, to enable a level of political fragmentation. The Federalist Papers are obviously not an instruction manual for contemporary American government, but their theory that ambition should counteract ambition is still visible in much of the government. Presidentialism and the existence of two effectively equal legislative chambers in the federal government and most states means that a large number of politicians can claim similar democratic mandates. They are not just likely to disagree and depend on different support bases because of their beliefs and careers, but their jobs, in different chambers of different governments, often
give them incentives to disagree. A highly independent judiciary, which is highly political and, in the states, often elected and overtly partisan, also adds to the fragmentation, multiplication of veto points, and privileged access for the most monied and sophisticated interests.

In the case of federalism, this means that the “laboratories of democracy” analogy has particular force in the United States. States are generally just as filled with veto points as the federal government, and their constitutions can be extraordinarily prescriptive and complex. Alabama’s 310,296-word constitution, three times longer than the Constitution of India, is an outlier that shows just how complex, amended, and elaborate they can be. But states are smaller, simpler, and more likely to have strongly biased party and interest systems than the federal government. They have a record of participating in the diffusion of ideas, though they also have a record of not adopting even sensible innovations from other states (Shipe and Volden 2021). Americans, confronted with a federal government predisposed to gridlock (partisan gridlock nowadays), are often prone to extoll state variation and possibilities simply because it means something is getting done somewhere—though as state politics nationalize, some of the enthusiasm, as well as the agents of national politicization, is moving to America’s highly constrained local governments (Katz and Bradley 2013; Grumbach 2022).

Separation of powers combined with federalism also means that American governments are very porous by international standards. They are crosscut and held together by parties but also by all manner of networks, factions, and ambitions. The concept and practice of intergovernmental relations makes sense in countries with more parliamentary governments, but since any American leader can be undercut by somebody in his or her own government, agreeing on binding deals is hard. Instead, the federal government primarily creates incentives that states then decide to take or not to take according to their own internal politics.

Intergovernmental relations in the United States, due to this porosity, will often be subsumed into a giant political system full of networks that are accustomed to venue shopping and the search for pressure points. Thus, for example, members of Congress from a party that habitually loses their state will promote federal power as a way to achieve their policy objectives, while their colleagues who are confident that co-partisans will run their state are much more likely to want to build extensive state autonomy into legislation (McCann 2015). As a result, federalism is often wrongly blamed for what should be seen as a general excess of veto points
within the state and federal governments, a general excess that explains the fragmentation and lack of generosity of the U.S. welfare state. Canada and Australia show that with Westminster governments federalism need not be an obstacle to welfare state development.

Federalism is also a double-edged sword in the ongoing democratic backsliding of the United States (Mickey, Levitsky, and Way 2017; Hertel-Fernandez 2019; Lieberman et al. 2019; Grumbach 2022). States have long been imperfect democracies, and 2021 saw an astonishing wave of efforts by Republican legislatures to reduce democratic participation and contestation. Less democracy in the states, most of which can be gerrymandered to ensure Republican legislative majorities despite Democratic popular vote majorities, translates into the ability to simply ignore popular votes in national presidential elections and to gerrymander House districts. This creates a path to undemocratic state-level strategies to overturn the results of an election if a partisan judiciary and Republican federal Supreme Court permit it. State-level competitive authoritarianism can thereby translate into federal competitive authoritarianism. This is not at all symmetrical; the anti-democratic actions and sentiments are in the Republican Party, which has only been able to muster a national popular vote majority in one presidential election (2004) since 1988. Likewise, the bulk of organized violence is on the political right. At the same time, state (and local) governments are also potentially powerful barriers to nationwide authoritarian shifts.

The obvious “solution” for political stability in the United States would be in the spirit of 1876: a reversion to subnational authoritarianism, with a patchwork of states at different levels of democracy and a national political environment shaped by the preferences of a Republican Party entrenched in authoritarian state governments defended by a disproportionately rural and White Senate and a Republican-dominated federal judiciary. Whether that solution can actually be stable in a country that is much more diverse, complex, wealthy, and mobilized than it was at the end of Reconstruction or in the 1960s or whether the Republican coalition can remain coherent enough to sustain it are open questions. In the meantime, the implications for social policy are likely to be relatively simple: democracy (and a free civil society) creates incentives for politicians to deliver broadly based

2. The Brennan Center at New York University maintains perhaps the best tracker of this fast-moving campaign. https://www.brennancenter.org/our-work/research-reports/voting-laws-roundup-may-2021
and equalizing social programs and public goods. Without the pressure of
democratic competition, we can expect more factional politics, more clien-
telism, more corruption, and the erosion of public goods. In the American
context, that is essentially the trajectory of Wisconsin. In a comparative
context, the extent to which populist radical right parties can implement
clientelistic agendas depends on the presence of coalition partners in gov-
ernment and democratic safeguards that are weak or lacking in the United
States (Falkenbach and Greer 2021; Müller 2016). American states are, for
better or for worse, the laboratories of a national experiment in democratic
backsliding (Grumbach 2022).

Perhaps the best example is the attack on public health powers during
the COVID-19 pandemic (discussed in NFPHL 2021). In fifteen states,
legislators passed or considered measures to sharply curtail the authority
of governors to issue public health restrictions. In most cases, this was an
action of Republican legislatures against Democratic governors. It fit with
a general tendency of gerrymandered legislatures to disempower directly
elected state executives but was also generally unpopular. In weakly demo-
cratic systems like many states, general unpopularity was seemingly less
important to legislators than rewards for core parts of their coalition
(low-wage service sector businesses primarily). Even if this particular
wave of legislative activism against public health law ebbs, it is a clear
data point about a possible or even likely future for American social poli-
cies. “Rewarding coalition partners” might not be an attractive or coherent
programmatic stance, but it is hardly an unsurprising policy approach for
governments with limited democratic accountability.

Implications: The European Union and Its Future

The previous sections of this chapter brought together the stories of our
four main cases to show how our framework of identities, interests, poli-
cies, and institutions created the social policies they have today. But how
well does it work in explaining a case that we did not use to develop the
argument?

Here, we apply our analytical framework to a polity whose basic nature
as federal is disputed: the European Union. The EU is an interesting case
for doing so because it is still disputed whether it is federal or something
of a different nature (confederal, an international organization, sui generis)
and whether it is necessarily evolving toward the “ever closer union” mentioned in its founding treaties (Börzel and Hosli 2003; Menon and Schain 2006; McKay 1999; Fabbrini 2004; Nicolaidis and Howse 2001; Kelemen 2004; Burgess 2000) (perhaps tellingly, this debate started to taper off around 2005, when it became clear that international relations scholars had largely ceded the topic to comparative politics researchers and EU specialists). The scholarly argument is whether treating it as a federal system answers more questions about its policies and direction than treating it as something else. What can we learn if we regard the EU through the lens of comparative federalism?

Viewed as federal, the EU is strange in clearly identifiable ways (Greer 2021; Kelemen and McNamara 2021). Its horizontal fiscal imbalances are extreme, with economic differences and prospects varying greatly between its regions. Its vertical fiscal imbalances are equally extreme, but to the advantage of the member states rather than the federal EU. By member states’ decision, the EU budget was capped at around 1 percent of GDP until 2020. Even if we count lending facilities and the power of the European Central Bank, 1 percent is neither in quality nor in quantity comparable to member states’ expenditures on any major area of social policy as a share of GDP. The result is that the EU neither socializes nor cushions risk in the way any welfare state does. Rather, it regulates welfare states to promote the internal market and, latterly, compliance with fiscal guidelines developed to protect its currency union. It is remarkably intrusive as a regulatory actor, but in the interests of creating markets and mobility through deregulation and EU-level reregulation. Only with the EU’s response to the COVID-19 pandemic in 2020 did it begin to redistribute between member states at all, with the €672 billion Recovery and Resilience Fund potentially creating a precedent for an actual EU budget contribution with equalizing effects (instead of grants for projects, agricultural subsidies, and subsidies for infrastructure, which had been its three main kinds of spending) (Jones 2021; Brooks, de Ruijter, and Greer 2021). The key issue is in the real meaning of conditionality for this facility. The formal conditionality is extensive, but it lacks the punitive politics of the Troika and the Semester. Instead, so far, it seems that the extensive conditionality saves face for creditor governments and, they could hope, might help them reimpose conditionality later.

How does our analysis explain the ways in which the EU, despite many properties similar to federal states, looks so different? To start with, it is obvi-
ously a multinational union, with dozens of politically established nationalities, many of them titular nationalities of its twenty-seven member states. In a smaller federal state, that would predict a higher level of authority for the middle level, such as member states, than fiscal federalism would suggest, and in the EU the member states are certainly the most powerful actors. A basic part of EU politics is multinationalism, which means almost every problem in the EU can be turned into one of nationalism and national stereotyping. The eurozone crisis was, for example, a carnival of national stereotypes that often distracted from shared economic conditions or problems. The left argument that “bailouts” of countries like Greece were actually bailouts of banks from creditor countries, at the expense of Greeks, might have been right but had little chance of success when both existing power relations and national identities reinforced the nationalism of the issue. Brexit, likewise, can be read as a perfectly normal case of a peaceful secession, a larger scale of what has been mooted in Scotland and Catalonia, and one that both required the invocation of English national feeling and left a different political system behind (Greer and Laible 2020).

The EU is, then, unique among federal systems in the level of territorially entrenched interests that it faces. Almost the whole public sector in the EU fits the definition of a territorially dependent sector; a member state civil servant is rather obviously linked to that member state, just like a lawyer or politician. Institutionally distinctive actors such as social insurance funds, very disparate professions such as notaries, and government contractors whose business models depend on a particular public sector organization are all further constituencies for the territorial autonomy of their respective states. The EU creates opportunities for members of these groups to spin personal and organizational networks across the continent, but a person who is a bridge between a member state and the rest of Europe will often have an interest in preserving the distinctiveness of the member state they explain and represent. Beyond that, there are large sectors of society who depend on member state regulation to constitute their work and conditions of work and who are often on the receiving end of EU efforts to deregulate their sectors. And finally, there are high-finance and high-politics linkages in every member state's political economy that powerful actors have incentive to preserve. A quick look at almost any salient industry shows complex connections between public, financial, and private sectors in member states that elites will mostly seek to preserve. Even if big companies are adept and powerful Brussels lobbyists, and are as
strategic about the use of the EU as of any other government, their ability to contain the scope of conflict in their home states is a thing that they most clearly value.

In other words, nationalism and territorially rooted interests are rife in the EU, far beyond their extent in the other federal systems we discuss. There is, simply, very little jurisdictionalism or regionalism, and the legacies of state formation, including language and financial systems, mean that almost every interest has pronounced nationalist dimensions.

Then, there is the inheritance of policy. Here, we have another novelty in EU federalism. There have been welfare states constructed after the basic outlines of the federation were created, as in the United States and Canada. There have been welfare states constructed more or less at the same time as federations, as in Spain or, over a long time, Germany and Austria. But there is no other case of federalism uniting established welfare states. As a result, the most powerful policy legacy in the EU is simply the legacy of diversity. We can see how it plays out in what should be fairly simple efforts to integrate across borders in welfare politics, as when Maastricht, in the Netherlands, and Aachen, in Germany, made small steps to integrate some subscale health services. Neither law nor process nor finance nor incentive enabled the process (Glinos, Doering, and Maarse 2012). There were just too many policy legacies, to allow it to work well, at every level. Likewise, the portability of retirement benefits in the EU works poorly and functions best in a few clear cases such as retirees in Spain, where the incentives are clear for both sides to make it work (Spanish providers make a profit while supplying services in the sun for less than they would cost in England).

The result is that the EU has its own clear policy legacy: since at least the 1992 program, and probably well before that, it has been a regulatory state. Its characteristic policy tool is legislation and jurisprudence that constrains member states. That is why it can do so much policy with so few staff; member states develop, pass, and implement policies that are relatively thin at the EU level (in itself, a sensible structural compromise). A labor policy is implemented by member state inspectorates, for example, regardless of whether its origins are in European or domestic law. These are paired with a few areas of powerful executive action (notably antitrust and restrictions on state aid—both market making and regulatory) and decentralized enforcement of EU law by member state courts and their litigants. In other words, the EU regulates member states, and it does so with tremendous power (Matthijs, Parsons, and Toenshoff 2019; Kelemen 2011).
The policy legacies of essentially everything working differently include welfare state finance. The combination of nationalisms with differentiated welfare states, each embedded in some sort of moral economy and set of political conflicts, leads to a profound reluctance to support other member states. The support given to Cyprus, Greece, Ireland, Portugal, and Spain during the eurozone debt crisis was huge, largely intended to preserve the eurozone rather than relieve suffering in the debtor countries, but was nonetheless controversial in every country (Walter, Ray, and Redeker 2020). Looking at the policies, it is easier to see a Franco-German bailout of imprudent banks, many of them French and German, than an actual effort to make transfers to people in the peripheral countries, but it was nonetheless the occasion for huge tensions between different politicians and national stereotyping.

In another example, the then European Court of Justice, instructively, started to impose shared health care standards for the EU around the turn of the century but backed off quickly when it learned the scale of the expenditures, and presumptive transfers, that would be required and that would have no political support. It retreated, in health as elsewhere, to making rules for access that would be nondiscriminatory; instead of articulating substantive European rights, it articulates rules for member states’ rights frameworks (Greer and Sokol 2014).

The result is that vertical fiscal imbalance works to the detriment of the EU: the accumulated legacies of member state financing of member state welfare states are reinforced by a reluctance to share wealth between states. Regulating seems altogether more palatable and is certainly more boring and technocratic (especially when not reported by the United Kingdom’s notoriously misleading press). Thus, nationalism works in tandem with the inherited policy legacies of a regulatory state form to reinforce the EU’s unusual regulatory depth and lack of social investment or welfare state.

These same logics, naturally, created an organization whose constitutional structure is deliberately riddled with checks and balances. It has an unusually free executive in the European Commission, though that is becoming more subject to the European Parliament and the Council of the European Union. Otherwise, the EU legislative process is as veto filled as the United States, as we would expect from member states that are not overeager to integrate against their wishes. Any textbook of EU politics will show the numerous obstacles to legislation, with the result that action
often requires more or less legitimate and creative bypasses, whether by the Council, in legislation, or in less accountable organizations such as the European Central Bank and Court of Justice. Obinger and colleagues found that the EU certainly conformed to their thesis that federations, rife with veto points, require creative bypasses to make any social policy at all (Obinger, Leibfried, and Castles 2005).

The result is that any given EU policy area contains structural instabilities that lead to crises, whether in the internal market in the COVID-19 pandemic or in the eurozone debt crisis of a decade earlier. In both cases, the member state governments “failed forward,” choosing further integration and more federalism in regulation and finance but doing so at the least common denominator they could find (Jones, Kelemen, and Meunier 2015). Thus, for example, the response to the eurozone debt crisis focused on keeping monetary systems operating, while creating a massive surveillance system that has been predictably ineffective (Greer and Brooks 2021; Kelemen and Teo 2014; Greer and Jarman 2018). The response to COVID-19 was both a large expansion of existing EU health and civil protection programs (especially the latter, which have more of the characteristics of an insurance scheme) and a potentially precedent-setting mutualization of debt (Brooks, de Ruijter, and Greer 2021; Greer, Rozenblum, et al. 2022). The COVID-19 response was the first major moment of EU policymaking post-Brexit, and the EU was predictably able to take newly ambitious initiatives once the United Kingdom was excluded from its decision-making processes (Greer and Laible 2020).

It is not surprising that the EU’s regulatory state structure is vulnerable to authoritarianism. Authoritarian leaders in, especially, Hungary and Poland have exploited this, protected by German leaders in particular (Kelemen 2017, 2019). It is also vulnerable to internal economic divergence that is making many southern and eastern member states increasingly peripheral, ending the convergence that had operated in the years before accession (Makszin 2020; Greer 2021). It still has an increasingly complex and centralized legislative system in which accountability is very unclear and policy problems are addressed primarily in crises. That is what we would expect of a multinational federal system with geographically disparate interests, a strong policy legacy of liberal regulation unmatched by broader social policy, and a set of institutions designed by its component states to permit vetoes and demand creativity for forward motion.
Conclusion

This book made six main points. It began with two points constituting a methodological case:

1. Federalism is best analyzed as an institution with no greater or lesser a priori importance than any other institution.
2. It should be analyzed as part of a configuration.

Ultimately, to ask what federalism does is to ask the wrong question. In fact, if we ask what any single institutional or political factor does, we should proceed with great care. The question should be which configurations of variables, such as race and federalism, gender and federalism, or electoral systems and federalism, shape the outcomes of interest.

Those two points are not specific to federalism. Rather, federalism is our case in a broader claim about institutional analysis. The point is that any institution needs to be understood as part of a configuration that composes a case and that case-based analysis, rather than variables, is the way to understand the impact of institutions as well as to answer big questions about why countries are the way that they are. Just as we found that the combination of federalism and a stateless nation produces a politics quite unlike jurisdictionalist politics and gives a different meaning to every other institution, it seems likely that other institutions will get their principal meaning through their interactions with other aspects of society and politics.

It also implies that there are limits to small inferential studies that try to estimate the impact of one variable. These are interesting and currently very popular in political science, but they often appear to be driven by data availability rather than an urge to answer a question about how and why countries differ. The result is, for example, the literature about the causes and consequences of regional debt loads discussed in chapter 1. That is a relatively tractable problem, and the literature has largely addressed it, but it is not the only problem in federalism. It is easy to see how the interest of international financial institutions has led to both greater data availability and interest than there is for other questions, but that does not mean that the question of regional debt’s determinants should have had such importance relative to other questions, such as the role of regional elites in statewide politics or the impact of federalism on social policies.
Using this approach, we made four subsequent points:

3. Politics in and within multinational states is different from the territorial politics within mono-national states and shapes political development of the entire state for the simple reason that there are actors, and voters, who value autonomy as an end in itself and cannot always be harnessed to some statewide coalition.

4. Regionally defined economic interests have been enormously consequential in the history of federations, but modern welfare states, and increasingly homogeneous economies, reduce many of the old territorial cleavages, replacing them with a mixture of urban-rural differences and middle classes dependent on regional governments.

5. Policy legacies and established financial systems are every bit as important in guiding policy as institutions and political forces. There are no clean slates in, at least, modern rich democracies. Policy legacies have shaped resources, political strategies, coalitions, and possible political strategies.

6. Outside the stateless nations and in countries without stateless nations, federal political institutions are used instrumentally by actors of all sorts seeking to gain an advantage and pursue their objectives, whether by using regional and local autonomy when out of power or by constraining it when in power. In this sense, federalism is just one more, generally centrifugal, political institution (Rogers 2015).

In other words, politics in stateless nations are truly different, and the politics of multinational states are therefore different. Stepan’s distinction between coming-together and staying-together federations really is foundational (1999). The thought experiment of comparing Canadian and Australian political development makes this clear—Australian history is almost a counterfactual for the history of a Canada with no Quebec and vice versa. Multinational states are more likely to have asymmetry, greater decentralization, and lower overall welfare expenditures (the last due to the greater variation in regional expenditure and possibly some reduction in willingness to support redistribution across the federation).

Federalism interacts with nations of all sorts, stateless or otherwise. It is tempting to simplify analyses by downplaying the complexity and inter-
penetration of politics outside stateless nations, as often happens in the literature on multinational states. It is tempting to turn it into a simple enemy of big government or perhaps a cause of it. It is also tempting to reduce all interests to the economic and all incentives to those generated by political institutions. It is much more sensible to argue that institutional incentives and economic interests are everywhere, but stateless nations are only found in some countries, such as Belgium, Canada, and Spain. And, of course, that political development in a multinational state creates different institutions and economic and social facts that change incentives and influence any but the shortest-term analyses.

We hope that this book will help to move scholarship and policy advice away from analyses that are based on single countries or regions. We hope that it will move us all away from studies that focus on the impact of single variables toward research that identifies big questions and tries to identify the configurations of variables in each case that explain the ways societies differ. From that kind of analysis, we believe, will come research that helps us understand federalism, the welfare state, and how they might evolve.
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