How to organize secondary capital city regions: Institutional drivers of locational policy coordination

David Kaufmann and Fritz Sager

University of Bern, Center for Public Management

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We analyze locational policy coordination in the metropolitan regions of secondary capital cities. Secondary capital cities – defined as capitals that are not the primary economic city of their nation states – serve as the political center of their nation states, however, they must simultaneously explore new ways to develop their own regional economies. Locational policies, and their regional coordination, aim to strengthen the economic competitiveness of metropolitan regions. Our comparison of the metropolitan regions of Bern, Ottawa-Gatineau, The Hague, and Washington, D.C., reveals that vertical institutional fragmentation, together with high local tax autonomy, create an unlevel playing field, which prompts jurisdictions to behave fiercely in regional tax competition. These findings are troubling for secondary capital cities given their propensity to be located in fragmented metropolitan regions and the capital city-specific local tax autonomy constraints imposed on them.

Introduction

Secondary capital cities (SCCs) are capitals that are not the primary economic city of their nation states. Originally, SCCs were established to serve the interests of their nation state, and they were expected to abstain from commercial and economic aspirations. James Madison, the political theorist and fourth President of the United States (U.S.), argued in *The Federalist Papers, no. 43* that the Federal District should be small in size and its development should be minimal (Hamilton, Madison, and Jay, 1982, 218). Small local governing structures, such as federal districts or city-states, are often created for SCCs in order to prevent second-tier political entities, like states, provinces, or cantons, from having authority over the nation's capital. This practice increases the likelihood that SCCs' metropolitan regions will span over multiple sub-national borders (Slack and Chattopadhyay 2009). In addition, smaller cities are often selected as capitals with the aim of uniting a country. Therefore, SCCs are prone to being located in areas of national tensions and these tensions tend to be mirrored by institutional fragmentation in the respective metropolitan region.

The traditional conceptualization of SCCs, as cities without economic aspirations, is increasingly challenged by growing pressure from economic globalization, which pushes SCCs and their regional economies into interurban competition, just like any other metropolitan region. As a consequence, policy-makers in SCCs have begun to formulate locational policies in order to become competitive – yet specialized – nodes in a globalized economy (Kaufmann 2018; Mayer, Sager, Kaufmann, and Warland 2018). In this article, we study the institutional drivers of locational policy coordination in the metropolitan regions of secondary capital cities.

The study of SCCs is becoming more practically relevant given the many current capital city relocation projects, such as the establishment of Oyala as the new capital of Equatorial Guinea, Naypyidaw as the new capital of Myanmar, and Putrajaya as the new Malaysian federal administrative capital. Formerly colonized nations are especially eager to break with their colonial ties by building new capital cities that symbolize their independence (Rossman 2017). SCCs can be found on every continent, with famous examples in Africa (e.g. Pretoria, Abuja), Asia (e.g. Jerusalem, Islamabad), Oceania (e.g. Wellington, Canberra), Europe (e.g. Berlin, The Hague), North America (e.g. Washington, D.C., Ottawa) and South America (e.g. Brasilia, Sucre). In most cases, SCCs are not infant capitals or capital cities that failed to develop properly. Instead, they were often deliberately chosen to exert a primarily regulative, balancing, or symbolic role with the original idea that they should refrain from aspiring to become economic powerhouses (Mayer, Sager, Kaufmann, and Warland 2016). However, increasing international interurban competition has pressured SCCs to forgo their dependence on their respective nation states and to formulate locational policies become competitive in the international economic arena in their own right.

Locational policies aim to strengthen the competitiveness of a locality or a region. Locational policies are more effective if they are coordinated between jurisdictions in the entire metropolitan region (Feiock, Steinacker, and Park 2009, 256). Coordination aims to ensure coherent policy-making by creating synergies and by reducing confronting strategies in the region (Keating 1995; Sager 2004). However, coordination is often hindered by collective action dilemmas, such as high transaction costs or free riding (Ostrom 1990).

We apply a heuristic proposed by Scharpf (1994), which conceptualizes coordination as a welfare-theoretic concept that has the potential to achieve higher aggregated welfare in a region through aligned action and strategically coordinated moves. We outline a theoretical framework that employs two institutional explanatory factors to explain locational policy coordination in the metropolitan regions of SCCs: institutional fragmentation within the metropolitan region and local tax autonomy. Policy coordination tends to be problematic in capital city regions due to the high likelihood of regional institutional fragmentation and capital cities' specific restrictions on employing tax instruments (Slack and Chattopadhyay 2009, 305-306). To better understand locational policy coordination in SCCs, we apply a theory-driven comparative case study design that compares the four SCC metropolitan regions of Bern, Ottawa-Gatineau, The Hague and Washington, D.C.

As we outline during the course of this article, there are at least three reasons that make locational policy coordination in SCCs relevant. First, systematic research about SCCs is lacking. Second, the category of SCCs enables us to study specific regional economies that are characterized by a strong public presence. Third, the academic literature often treats SCCs as objects of the nation state and thereby neglects the processes through which they actively seek to increase their economic competitiveness. On a theoretical level, this article contributes to recent debates on policy integration (e.g. Nordbeck and Steurer 2016) and policy coordination (e.g. Cejudo and Michel 2017), as well as to the still relevant debates about local tax competition and coordination in metropolitan regions (e.g. Keating 1995; Savitch and Vogel 2009).

In the following section, we discuss SCCs and their locational policy efforts before turning to the theoretical framework. We find that there is greater coordination of locational policies in instances of both low vertical institutional fragmentation and low local tax autonomy. We suggest that an interaction effect is at work. High local tax autonomy has the greatest negative effect on coordination in metropolitan regions that have high vertical institutional fragmentation because this fragmentation creates an unlevel playing field for tax competition. In the conclusion, we discuss the practical implications of these findings for SCCs.

Why secondary capital cities coordinate locational policies

Both Campbell (2000) and Hall (2006) categorize capital cities by differentiating between their political and economic roles. Hall (2006) creates, among other categories, a category for global capitals, such as London and Tokyo, multi-functional capitals, such as Paris and Moscow, and political capitals, such as Washington, D.C. and Bern. Among other categories, Campbell (2000) distinguishes between the capital as the dominant economic city in the nation state (such as Paris or Copenhagen) and the capital as a secondary city (such as Ottawa or Canberra) and emphasizes the economic status and relative position of the capital within its respective nation's urban system. Whereas its political role is attached to its capital city status, "there is no rule that a political capital automatically attracts concomitant economic functions" (Hall 2006, 10). Building on Campbell (2000) and Hall (2006), we define a SCC as the capital city of a nation that has at least one other city that is economically more important to it than the capital city.

Capital city research stemming from political science mostly focuses on the political interactions between different levels of government and on the conflict these cities face between serving the interests of the nation as a whole and those of their local residents (e.g. Rowat 1973; Slack and Chattopadhyay 2009). Despite the "high interest in economic development efforts involving cooperation or collaboration among metropolitan jurisdictions" (Feiock, Steinacker, and Park 2009, 256), no study, thus far, tackles these issues in SCCs.

As in any other city, SCCs try to strengthen their economic competitiveness by formulating locational policies (Kaufmann 2018; Mayer et al. 2018). Examples of locational policies include: innovation policies that facilitate knowledge flows between crucial actors in a region, image building strategies that aim to craft a brand for the locality, the development of crucial infrastructure projects, strategies to attract firms and efforts to tap into upper-tier governmental funds (Kaufmann and Arnold 2018). Locational policies are formulated based on local assets, which explains why capital cities largely rely on their capital city status when devising locational policies (Kaufmann 2018).

An institutionalist approach to policy coordination

The phenomenon to be explained is the coordination of locational policies within the metropolitan regions of SCCs. Coordination is a process that occurs within an institutional setting (Koch 2013). Therefore, we have developed an institutionalist theoretical framework to approach the coordination of locational policies in SCC regions. Since a comparative urban research agenda requires some degree of reductionism (Pierre 2005, 447), the theoretical framework consists of two institutional explanatory factors that we expect to explain locational policies coordination. Our institutional perspective is Fritz Scharpf's (1997) actor-centered institutionalism (ACI) that focuses on formal institutions and perceives them as both enabling and restricting conditions for actor behavior. To understand actor behavior within institutional settings, we adhere to Olsen (2001, 193): "Actors behave in accordance with their interpretation of rules and practices that are socially constructed, publicly known, anticipated, and accepted." Drawing on the findings of an extensive comparison of eleven capital cities (Slack and Chattopadhyay 2009), the two institutional explanatory factors selected are institutional fragmentation in metropolitan regions and local tax autonomy.

Phenomenon to be explained: coordination of locational policies

Instead of focusing on coordination within governments (e.g. Bouckaert, Peters, and Verhoest 2016), we analyze coordination between governments in a metropolitan region. Coordination can be understood as a process whose successful outcome is policy coherence (Cejudo and Michel 2017; Nordbeck and Steurer 2016). We approach the coordination of locational policies using a heuristic of Scharpf: "[Coordination] is considered desirable whenever the level of aggregate welfare obtained through the unilateral choices of interdependent actors is lower than the level which could be obtained through choices that are jointly considered" (Scharpf 1994, 27).

Institutional collective action dilemmas arise when the decisions taken by one government impact other governments and their policies. Different coordination structures may address collective action dilemmas. Feiock (2013) differentiates coordination structures by their integration mechanisms and the scope of the policy fields that they aim to coordinate. For example, councils of governments are a type of coordination structure based on statutes that only incorporate a few policy fields, such as public transportation, planning, and/or locational policies. Looser types of coordination structures include informal networks or service contracts that often arise as alternatives to more institutionalized coordination structures. Empirical studies reveal that effective coordination is often achieved through cooperative arrangements that stabilize the networks of policy-relevant actors, and not through institutionalized coordination structures (Sager 2005; Sager 2006).

Peterson (1981) suggests that locational policies within a city are politically uncontested because local public and local private actors share an interest in economic development. However, the increased international urban competition scaled-up the relevant competing units from cities to metropolitan regions (Hall and Pain 2006). Thus, locational policies have a transboundary characteristic, which can make them politically contested in the metropolitan region. Efforts to coordinate locational policies at the metropolitan level are often motivated by a metropolitan-wide common interest to promote the location (Kübler and Piliutyte 2007, 365; Morgan 2014, 314). Feiock, Steinacker, and Park (2009, 256) emphasize the potential benefits of regional coordination in economic development policies, but they also add that "the transaction costs tend to be correspondingly high, making economic development one of the toughest cases for institutional collective action". The transboundary characteristic of locational policies makes them subject to regional politics as "cooperation results from bargaining and negotiating among the officials of affected jurisdictions" (Dowding and Feiock 2012, 37). The political games involved in locational policies coordination are likely to be more intense in federalist settings due to the high local autonomy that federalism attributes to subnational governments. Furthermore, political games are likely to be more intense in metropolitan regions that have high institutional fragmentation because local governments in the core cities of Western countries tend to be ruled by political parties that differ from those of the local governments in the suburbs (Sellers, Kübler, Walter-Rogg, and Walks, 2013).

We operationalize the coordination of locational policies within metropolitan regions with a heuristic inspired mainly by Scharpf (1994; 1997), which distinguishes between two categories of coordination. In addition, we propose a third category, coordination failure, as the worst-case scenario for coordination. The first category, positive coordination, describes a proactive search for synergies and for a common welfare that is better than would be possible through individual action. The outcome of positive coordination process would be policy coherence. Second, negative coordination, refers to the mere avoidance of contradictory action and redundancies without actively generating synergies. Negative coordination does not aim to achieve policy coherence, but it does seek to avoid unilateral action that could harm the interest of other jurisdictions in the metropolitan region. Third, coordination failure, can include beggar-my-neighbor behavior of different localities within a region (Keating 1995, 120), as well as the absence of any coordination, meaning that coordination as a process would never even had begun.

Explanatory factor one: institutional fragmentation

Policy coordination between actors in a metropolitan region is conditioned by the mismatch between functional integrated regions and jurisdictional territories. Governing institutionally fragmented metropolitan regions requires coordination among governments (Kübler, Sager, and Schwab 2005). Morgan (2014) argues that institutional fragmentation in metropolitan regions, i.e. administrative area boundaries, is a considerable barrier to coordinated locational policies.

We distinguish between horizontal and vertical dimensions of institutional fragmentation. The horizontal dimension represents the quantity of local governments in a metropolitan region. We expect that horizontal fragmentation (a greater number of local jurisdictions in a metropolitan region) hinders coordination because it increases collective action problems, such as transaction costs or opportunities to free ride. The vertical dimension represents the presence of upper-tier governmental entities in a metropolitan region. Metropolitan regions may be integrated within a single state, province or canton, or they may be divided by multiple upper-tier governmental entities. We expect that vertical institutional fragmentation hinders coordination because, in such a case, different local governments belong to different lines of political authority. For example in Switzerland, policy coordination in vertical institutional fragmented metropolitan regions is difficult because the cantons occupy the most powerful role in Swiss policy-making (Sager, Ingold, and Balthasar 2017).

Vertical institutional fragmentation, in particular, is often an issue in SCCs for two reasons. First, the cities chosen as capitals are often selected due to their prospect of uniting a nation state and are thus located in areas of national tension. For example, the choice of Ottawa to bridge Anglophone and Francophone Canada. Second, in some cases, specific governing structures (e.g. federal districts) were created for capitals that are relatively small-scale and which only cover the core city of the capital region. For example, the metropolitan region of Washington, D.C. is highly fragmented, as it incorporates the District of Columbia and three additional states (Virginia, Maryland, and West Virginia), which are in turn home to various local jurisdictions.

Explanatory factor two: local tax autonomy

The national tax system determines a jurisdictions' ability to raise income (Page and Goldsmith 1987, 7). The degree of local tax autonomy can be operationalized (1) by the availability of tax instruments and (2) by the proportion of all national tax revenue that is collected at the local level. High local autonomy means that local governments have a variety of tax instruments at hand, such as personal income tax, corporate income tax and property tax on land and real estate. Importantly, local jurisdictions have the discretion to set their own tax rates, which may differ considerably between jurisdictions in the same metropolitan region. In a low local tax autonomy context, some of these tax instruments are the prerogative of higher-tier political entities. To compensate for these limitations on local tax instruments, substantial public money is transferred from higher-tier political entities to finance local budgets (Goldsmith 2012, 137). The proportion of all national tax revenue collected at the local level is a straightforward measurement of local tax autonomy (Sellers and Lidström 2007, 616-618). We expect that the availability of tax instruments and the proportion of tax revenue at the local level are positively correlated.

We expect that local governments with far reaching tax rights will take full advantage of their tax rights. High local tax autonomy enables them to lower taxes or award tax incentives. In a high tax autonomy setting, local governments have powerful incentives to compete against each other in order to attract residents, firms, and other taxable capital (Keating 1995). Thus, tax competition is likely to trump locational policy coordination. Hence, we expect that high local tax autonomy constrains the coordination of locational policies, whereas low tax autonomy enables coordination.

Capital city-specific local tax autonomy constraints are important in the context of this article. For example, Washington, D.C., as the U.S. Federal District, does not enjoy the same tax rights as other U.S. states. Washington, D.C. cannot tax commuters that work in the District of Columbia but reside outside of it. Furthermore, tax exemptions on property belonging to the national government and to foreign governments (such as embassies or consulates) limit capital cities' local property tax base. Unsurprisingly, this property tax exemption has the greatest financial consequences in capital city regions. These tax losses are severe for local budgets that rely on property tax as the most important local tax instrument, such as in Ottawa or The Hague.

Propositions

The two explanatory factors, together with the operationalization of coordination, yield four possible proposition configurations, which are illustrated in Table 1. In line with the ACI, we distinguish between enabling and constraining institutional settings: "political interaction is driven by the interactive strategies of purposive actors operating within institutional settings that, at the same time, enable and constrain these strategies” (Scharpf 1997, 36). As proposed in the ACI, the institutional framework is a context condition alongside situational factors and the non-institutional context, such as geographic and economic factors. Thus, additional explanatory factors are taken into account in the case studies.

TABLE 1
Propositions

Institutional fragmentation / Local tax autonomy	Low	High
High	Negative coordination	Coordination failure
Low	Positive coordination	Negative coordination

Research design

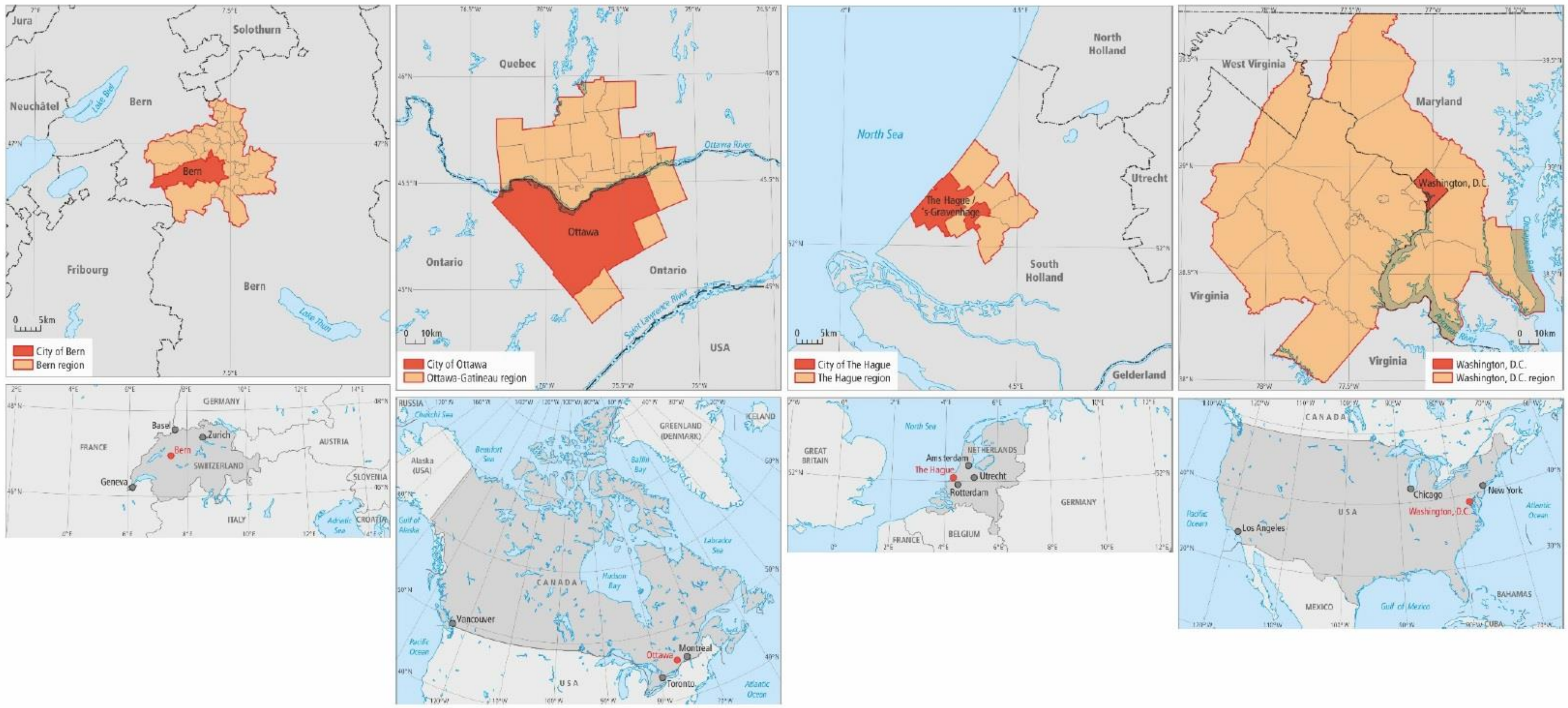
We employ a comparative multiple case study design that includes four SCC regions in Western countries, namely Bern, Ottawa-Gatineau, The Hague, and Washington, D.C. The four cases constitute a theory-driven sample in order to “maximize the variance of the independent variable[s] and to minimize the variance of the control variables” (Lijphart 1975, 165). Since the study of capital cities is inherently a study of exceptions (Campbell 2000, 22), we restrict ourselves to four SCCs in OECD countries.[1] This enables us to control for some of the economic and political context while allowing for variance in the two proposed explanatory factors. Thus, our research design juxtaposes a cross-case analysis with a within-case analysis. The latter analysis tests theoretically derived propositions and is mostly based on interview data.

[1] There are ten SCCs in the 34 OECD countries: Canberra, Australia; Ottawa, Canada; Berlin, Germany; Jerusalem, Israel; Rome, Italy, The Hague, The Netherlands; Wellington, New Zealand; Bern, Switzerland; Ankara, Turkey; Washington, D.C., United States.

Together, these two inferential strategies allow for reliable causal inferences (Collier and Brady 2010, 10).

Figure 1 depicts the maps of the four metropolitan regions under scrutiny. The maps demonstrate vertical and horizontal institutional fragmentation in the four metropolitan regions. The metropolitan region of Bern consists of 29 municipalities that all belong to the Canton of Bern. The metropolitan region of Ottawa-Gatineau consists of 15 cities, townships and municipalities (twelve belong to Quebec and three belong to Ontario). It is divided at its core between the provinces of Ontario and Quebec. In the metropolitan region of The Hague, all six local governments belong to the province of South Holland. The metropolitan region of Washington, D.C. consists of 23 counties and cities, as well as the District of Columbia, and spans over three states, in addition to the District of Columbia.

FIGURE 1
Maps of the selected SCCs' metropolitan regions



Note: These maps were created by Alexander Hermann (University of Bern) and were first published in the book *The Political Economy of Capital Cities*, by Mayer et al. (2018). London: Routledge. The maps are reprinted by permission of the copyright holders Alexander Hermann and Heike Mayer.

The second explanatory factor, local tax autonomy, is concerned with the tax instruments available to local governments and the proportion of tax revenue collected at the local level (for the latter see OECD 2014). The U.S. and Switzerland both have high tax autonomy – around 15% of all tax revenue is raised at the local level. In Switzerland, local governments are allowed to levy personal income tax, corporate income tax and property tax, among others. They can set their own tax rates. In the U.S., state law determines the tax instruments available to local governments. For example, jurisdictions in Virginia are allowed to raise property and sales taxes, whereas jurisdictions in Maryland are allowed to collect personal income and property taxes. In Canada, local governments raise 9% of all taxes, and they are only allowed to collect property tax. In the Netherlands, local governments only raise 3.6% of all taxes, and they are only allowed to collect property tax.

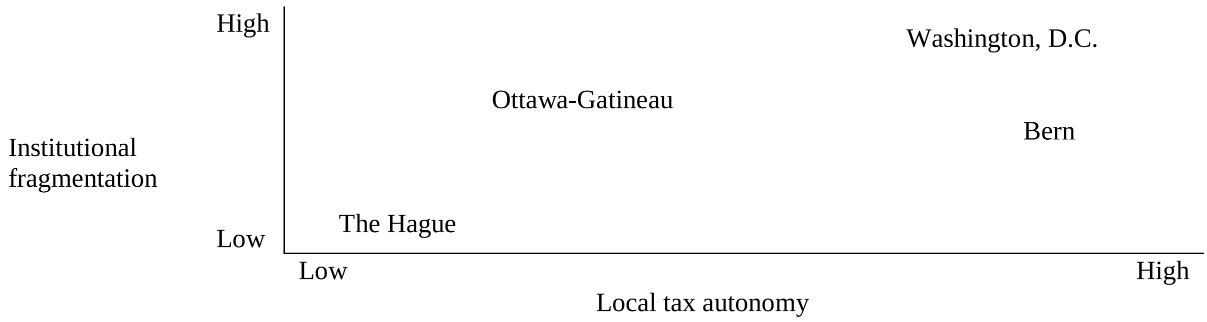
Table 2 summarizes the four cases. Table 3 displays the cases' variances in the two explanatory factors and allocates the cases to the propositions in Table 1.

TABLE 2
Summary of selected cases

Type of factor	**Factor**	**Bern**	**Ottawa-Gatineau**	**The Hague**	**Washington, D.C.**
Control factor	Type of capital city	Secondary capital city	Secondary capital city	Secondary capital city	Secondary capital city
Control factor	Type of country	Western OECD country	Western OECD country	Western OECD country	Western OECD country
Context factor	Inhabitants of capital city	131,554	957,148	514,861	672,228
Context factor	Inhabitants of metropolitan region	314,223	1,332,001	838,015	6,097,684
Context factor	State type	Federal state	Federal state	Decentralized unitary state	Federal state
Explanatory factor one	Institutional fragmentation - Horizontal - Vertical	Ambivalent - High 30 local governments - Low All local governments within the same canton	Rather high - Rather low 15 local governments - High Provincial boundaries at the very core	Low - Low 6 local governments - Low All local governments within the same province	High - High 24 local governments - High Three states and the District of Columbia
Explanatory factor two	Local tax autonomy - Availability of tax instruments - Share of local tax revenue	High - Personal income tax, corporate income tax, property tax - 15.2%	Rather low - Property tax - 9.7%	Low - Property tax - 3.6%	High -Property tax; Personal income tax, and sales and use tax determined by state law - 15.9%
Phenomenon to be explained	Coordination of locational policies	?	?	?	?

Sources: Population data (all from 2015) and definitions of the metropolitan regions: Bern: MS region 11 defined by the Swiss Federal Statistical Office. Ottawa-Gatineau: ‘census metropolitan area’ Ottawa-Gatineau defined by Statistics Canada. The Hague: Agglomeratie ’s-Gravenhage, COROP region (=NUTS NL332) defined by Statistics Netherlands. Washington, D.C.: Washington-Arlington-Alexandria (DC-VA-MD-WV) metropolitan statistical area (FIPS MSA Code 8840), defined by the United States Office of Management and Budget. Local tax revenue: OECD 2014 tax autonomy indicators (data from 2011).

TABLE 3
Variance in the two explanatory variables in the cases



Note: Distances only serve illustrative purposes and do not imply observed values

Data collection includes secondary quantitative and qualitative data, document analysis, and semi-structured, in-person interviews. The backbone of the within-case analysis consists of 91 interviews with 103 relevant decision-makers in the four SCCs. Interview partners were carefully selected in order to ensure sufficient variety within the cases and consistency between them. The interviews took place during field studies of a minimum duration of three-months in all four SCCs. Table 4 provides an overview of the interviews.

TABLE 4
Overview of the interviews in all four SCCs

Type of interviewee	Bern	Ottawa-Gatineau	The Hague	Washington, D.C.	**Total**
- Public Official (local, second-tier and national government)	6	5	9	8	**28**
- Economic development agent - Regional coordination agent	3	6	4	4	**17**
- Business actor - Private interest group representative	7	6	5	8	**26**
- Expert - Academic	3	4	6	7	**20**
Total	**19**	**21**	**24**	**27**	**91**

Bern

We expected to observe negative coordination due to ambiguous institutional fragmentation, i.e. high horizontal institutional fragmentation, low vertical institutional fragmentation and high local tax autonomy. The findings do not support our proposition. Despite the presence of an established coordination structure in the metropolitan region, there is no coordination of locational policies and there is moderate competition for attracting residents.

Although Bern was once very powerful – at its pinnacle (1500-1800) it was the largest European city-state north of the Alps – it has consistently lost ground to other economic powerhouses in the Swiss urban system. When judged by various demographic and economic measures, Bern is eclipsed by the much larger, and economically more prosperous Swiss metropolitan region of Zurich, Geneva-Lausanne and Basel (Kaufmann, Warland, Mayer, and Sager 2016). Business actors believe that the absence of coordination in Bern's metropolitan region is one of the major causes of Bern's declining importance (Interviews: 2 & 5).

Municipalities in Bern's metropolitan region are embedded in a council of government organization called the Regional Conference (*Regionalkonferenz Bern-Mittelland*), which is mostly active in the fields of public transport infrastructure and land-use planning. There is a subdivision of the Regional Conference, the Sub-Conference Economy (*Teilkonferenz Wirtschaft*), which is responsible for coordinating economic policies. However, neither organization is able to foster profound locational policy coordination. A politician explains the Regional Conference's weakness:

> *The regional conference has too few responsibilities and it is limited in its effectiveness. I see the Regional Conference and its sub-conference as a paper tiger. The important political decisions are still being made in the municipalities* (Interview 13).

Similarly, van der Heiden (2010, 45) posits that jurisdictions in the Bern metropolitan region are not interested in coordinating their international strategies. Additionally, there is moderate tax competition between municipalities for attracting residents. However, when it comes to attracting firms, both the mayor of Bern and the economic development officer of Köniz – the second largest municipality in the metropolitan region of Bern – agree that their municipalities benefit if a firm settles anywhere in the metropolitan region (Interviews: 11 & 18). In sum, although regional coordination structures exist, we did not find coordinated locational policies.

Low vertical institutional fragmentation, due to the single upper-tier entity of the Canton of Bern, explains the presence of a coordination structure in the metropolitan region of Bern. However, interviewees point to three reasons for the absence of coordination of locational policies and the competition for attracting residents. First, due to high local tax autonomy, municipalities can set their own tax rates and, therefore, they moderately compete for residents (Interviews: 5, 13, 15 & 19). The tax instruments available to municipalities, such as the tax on personal income, make residents an important tax base. For example, personal income tax in the city of Bern comprises 42.5% of the local budget revenue (Federal Finance Administration 2016). Second, municipalities resist anything that could potentially constrain their autonomy (Interviews: 5 & 13). A local politician declares that "local autonomy is a sacred cow in Bern" (Interview 18). This is also well documented by van der Heiden (2010) who observes that decision-makers in agglomeration municipalities are unwilling to restrict their political autonomy in favor of collective action. Third, interviewees mention a partisan divide between the agglomeration's municipalities and the core city. Whereas the city of Bern is a political stronghold of the Social Democrats and the Green Party, municipalities in the agglomeration are dominated by moderate-right and conservative-right parties (Interviews: 1, 5, 7 & 13).

Ottawa-Gatineau

We expected to find negative coordination due to institutional fragmentation at the heart of the metropolitan region and low local tax autonomy. However, as in Bern, there is no coordination of locational policies in the metropolitan region of Ottawa-Gatineau. Thus, the findings do not support our proposition.

Ottawa was a farm and lumber town before it was chosen as Canada’s capital in 1867. After the two World Wars, Ottawa’s dominant economic sector changed from the primary sector (forestry) to the public sector. From the mid-1990s to the early 2000s, Ottawa’s economy boomed thanks to its innovative high-tech sector. The burst of the dot.com bubble in the early 2000s made the public sector the region’s largest employer once again and marked the sharp end of Ottawa’s short economic rise. The collapse of the high-tech sector put locational policies high on Ottawa’s political agenda (Andrew and Doloreux 2014, 142-144).

Ottawa amalgamated with eleven smaller Ontarian municipalities in 2001. The neighboring Quebecois city of Gatineau was formed in 2002 through an amalgamation of five municipalities. As a consequence, the cities of Ottawa and Gatineau became powerful and distinctly urban in comparison to their rural neighboring municipalities. Since 1968, the federal government has attempted to enhance its presence in Quebec by shifting federal offices and cultural facilities across the river to Gatineau. However, neither the amalgamation, nor federal presence in Gatineau has encouraged the coordination of any policies between Ottawa and Gatineau (Interviews: 47 & 54).

Economic development agencies in Ottawa and Gatineau (Invest Ottawa and Développement économique - CLD Gatineau) do not coordinate their locational policies with their counterparts on the other side of the Ottawa River. The same is true for economic interest organizations, like the Chambers of Commerce or the Business Improvement Districts (Interviews: 50, 57 & 61). This absence of coordination is described metaphorically by several interview partners:

- *The Ottawa River is wider politically than it is physically (Interview 45).*
- *Ottawa was chosen as the capital city to bridge Anglophone and the Francophone Canada, but it cannot live up to this task (Interview 54).*

– *People are talking about Ottawa and Gatineau as the two solitudes (Interview 53).*

The absence of coordination can largely be explained by vertical institutional fragmentation. This is reflected in very basic problems: Neither local government can engage in activities that would spending one jurisdiction's taxpayers' dollars on a project that would uniquely benefit the other jurisdiction. This vertical institutional fragmentation also includes different political systems and issues regarding Quebec's status within Canada (Interviews: 58). We can see Canada's very political struggles manifest themselves in its capital city region. The political dilemma surrounding Ottawa-Gatineau leads an expert to conclude that "Ottawa is probably the hardest capital city region to govern" (Interview 58). Despite the vertical institutional fragmentation, we did not find competition or beggar-my-neighbor behavior. The limited tax instruments available to Canadian municipalities prevent an outbreak of tax competition over firms or residents. Fragmentation in the metropolitan region is not limited to provincial borders. The two core municipalities – Ottawa and Gatineau – do not cooperate with the remaining municipalities in their respective provinces. This can be explained by geography and, more precisely, by the urban/rural divide. The economic bases of the two core municipalities and the remaining rural municipalities are so diverse that coordinating locational policies does not make much sense.

The Hague

We expected to find positive coordination of locational policies due to low institutional fragmentation and low local tax autonomy. The findings support our proposition.

The Hague is deeply embedded in the huge polycentric metropolitan region called Randstad. The Hague is mostly studied in the context of its international organizations (e.g. van Krieken and McKay 2005). However, it also hosts most national government organizations, such as the Dutch Parliament, the Cabinet of the Netherlands and the Supreme Court of the Netherlands. Thus, the presence of the public sector provides The Hague with a distinct economic profile that is complementary to the other major cities of the Randstad (Meijers, Hoogerbrugge, Louw, Priemus, and Spaans 2014, 92).

Until its termination at the end of 2014, the City-Region Haaglanden, which included The Hague and eight neighboring municipalities, served as the political coordination structure for environmental issues, spatial planning and locational policies. At the beginning of 2015, the two City-Regions of Rotterdam and Haaglanden merged into the Metropolitan Region of Rotterdam The Hague (MRTH). This new coordination structure encompasses 2.2 Million inhabitants, consists of 23 municipalities, employs around 100 staff members and is an internationally significant economic region. The establishment of the MRTH was initialized by the mayors of Rotterdam and The Hague in 2010 (Interviews: 32 & 22). The MRTH is a powerful player, which is exemplified by the Dutch government's decision to allocate its transportation funds directly to the MRTH (Meijers et al. 2014, 93). Beyond public transportation, the MRTH seeks to strengthen its economic competitiveness by coordinating locational policies (Interview 43).

Three reasons explain the positive coordination of locational policies in the case of The Hague. First, all of the municipalities that cooperate within the MRTH belong to the province of South Holland (*Zuid-Holland*). The establishment of the MRTH was a strategic move carried out by Rotterdam and The Hague to gain more autonomy from the province of South Holland (Interviews: Meijers, Schuttenbeld). The economic development director of the MRTH explains:

> *We have to redefine the relationship with the province. The hierarchical structure of the three state levels does not match the realities anymore. The mayors of the big four cities have a direct line to the Prime Minister* (Interview 43).

Indeed, provinces are the least powerful of the three state levels in the Netherlands and the major Dutch cities "often view the provinces as unwelcome representatives of the smaller municipalities that surround them" (Andeweg and Irwin 2014, 212–213). As a consequence, the MRTH was initiated by the province's two biggest cities with noticeably less political commitment from the mayors of the smaller municipalities. Second, low local tax autonomy facilitates the coordination of locational policies. Rotterdam and The Hague see each other rather as complementary parts than as competitors (Interview van Loon). The municipalities still compete to acquire firms. However, compared to cases with high local tax autonomy, competition is transparent and is mostly based on complementary clusters of firms. Furthermore, there is a gentlemen's agreement that forbids the so-called poaching of firms (Interviews: 33, 42, & 43). Third, the special polycentric setting of the Randstad makes coordination very attractive because it provides ample opportunities to 'borrow size' (Burger, Meijers, Hoogerbrugge, and Tresserra 2015). An expert explains:

> *The Hague is not a complete city. It does not have a labor market of its own and the residents of The Hague can profit from a lot of cultural opportunities in other cities and vice versa. (Interview 32).*

Only together with other cities in the Randstad is The Hague able to provide a sufficient critical mass to support a wide range of metropolitan functions and to be competitive in interurban competition (Meijers et al. 2014, 98–99).

Washington, D.C.

We expected to find coordination failure because of its high institutional fragmentation and high local tax autonomy. The findings support our proposition.

Establishing the capital city in Washington, D.C. in 1800 was an intentional move to insulate the newly founded republic's federal government from the influence of any state or commercial center (Ghandi, Yilmaz, Zahradnik, and Edwards 2009, 271). Since the founding of the capital, the presence of the federal government has fostered impressive economic development for the entire metropolitan region. An expert sees a "direct correlation between the regions' GDP and federal spending" (Interview 71).

The Greater Washington Initiative (GWI), a public-private partnership mostly funded by the different jurisdictions of the region, was tasked until 2010 with coordinating locational policies in the metropolitan region. Whereas the smaller jurisdictions appreciated the GWI's standardized services, the larger jurisdictions (such as Arlington, Alexandria, Fairfax, or Montgomery) pursued their own locational policy activities while they were part of the GWI (Interviews: 72, 78 & 87). In 2010, some larger jurisdictions stopped funding the initiative, which led to the dissolution of the GWI in that same year. Currently, two organizations remain to tackle the coordination of locational policies. One is the informal network Commission of Economic Development Officials (CEDO), which connects different jurisdictions' economic development agents. However, the purpose of the CEDO is to share information and best practices, not to coordinate policies (Interview 67). The other organization is the Metropolitan Washington Council of Governments (MWCOG), which focuses on transportation, land-use planning and environmental issues. The MWCOG seeks to coordinate some locational polices, for example the region's cyber security activities, however, it struggles to obtain jurisdictions' support in this policy area (Interview 66). Neither the CEDO nor the MWCOG have been able to fill the vacuum that resulted following the termination of the GWI.

All interviewees agree that there is fierce within competition regarding firm acquisition and the attraction of taxpayers in the Washington, D.C metropolitan region. A so-called non-poaching agreement exists between the jurisdictions, however, they have been unable to agree upon a new non-poaching agreement (Interviews: 67 & 78). Even though poaching has been condemned in many interviews, the non-poaching agreement only has a limited impact because firms are aware of the obvious competition, and they approach the different jurisdictions directly or via brokers (Interviews: 72, 77 & 90). For example, an economic development agent explains her strategy:

> *We did an analysis in which we identified our strong economic clusters and potential clusters that are present in other jurisdictions, but that we do not have. We should have our fair share as well in these clusters. So, it is a strategy of 'guarding' our companies and 'going after' new firms and organizations (Interview 72).*

Another example that illustrates the regional competition over firms and organizations is the relocation of the U.S. National Science Foundation from Arlington to neighboring Alexandria (Interviews: 72, 78 & 84). A District public official regards the regional competition very critically:

> *This non-poaching agreement has no impact on the ground. It is just a phrase. We have a severe competition in the Washington, D.C. region that is almost a race-to-the bottom. This competition dynamic is counterproductive for the whole region and the lack of regional policy coordination is one of the biggest weaknesses of the region* (Interview 90).

The interviewees attribute within competition to the interaction of the two proposed explanatory factors. First, the Washington, D.C. region is a typical case of high vertical institutional fragmentation. Its core, the District of Columbia, only accounts for about 10% of the population. Virginia, West Virginia, Maryland, and the District of Columbia have different political histories and institutions (Interviews: 71 & 72). The District of Columbia is a special political entity, which has to fulfil the functions of a state and those of a county, a city and a school district, without the authority to raise revenue in the way all other states are allowed to (Ghandi et al. 2009).

Second, competition in this metropolitan region can be explained by the interaction between its vertical institutional fragmentation and its high local tax autonomy. Each state has different tax rules and each jurisdiction can set its own tax rate. This high local tax autonomy enables jurisdictions to offer tax benefits and other financial incentives that provoke a very competitive economic dynamic (Interview 89). For example, jurisdictions in Virginia are not allowed to levy personal or corporate income tax. However, these Virginian jurisdictions are very competitive and aggressive and offer various other incentives to firms, such as reduced real estate rents and property tax breaks. Jurisdictions in Maryland are allowed to levy so-called piggyback taxes on personal income, which encourages them to prioritize the creation of favorable living conditions for their taxpayers (Interviews: 68 & 78). The District of Columbia itself has a very different tax setting, since it is not allowed to levy the so-called 'Commuter Tax' on the income of non-residents that work in the District of Columbia, and federal property is tax exempt. In sum, the interaction of these two explanatory factors creates an unlevel playing field that fuels competition between the jurisdictions. A public official sum it up: "We can't change anything about the institutional fragmentation and the different tax systems. So, we have to accept that and try to work around it" (Interview 66).

Discussion

The findings of the case studies are summarized in Table 5. In general, we only found the coordination we expected when both explanatory factors either enabled or constrained coordination. Mixed directions of influence (high institutional fragmentation and low tax autonomy, or vice versa) do not lead to negative coordination. Instead, they result in an absence of coordination, which can be considered to be a form of coordination failure.

TABLE 5
Findings of the case studies

	Washington, D.C.	**Bern**	**Ottawa-Gatineau**	**The Hague**
Explanatory factors	- High vertical institutional fragmentation - High local tax autonomy	- Low vertical institutional fragmentation - High local tax autonomy - *Fear of ceding local autonomy* - *Partisan divide between the core and the agglomeration*	- High vertical institutional fragmentation - Low local tax autonomy - *Urban/rural divide*	- Low vertical institutional fragmentation - Low local tax autonomy - *Complementary economic bases*
Expected proposition	Coordination failure	Negative coordination	Negative coordination	Positive coordination
Empirical observation	Coordination failure (Beggar-my-neighbor behavior)	Coordination failure (absence of coordination in locational policies)	Coordination failure (absence of coordination)	Positive coordination
Proposition testing	Supported	Not supported	Not supported	Supported

Additional explanatory factors are *italicized*.

Regarding institutional fragmentation, the case studies revealed that second-tier borders, i.e. state, province or canton borders, are powerful institutional constraints to the coordination of locational policies. The cases of Washington, D.C. and Ottawa-Gatineau show how inter-municipal coordination fails due to the second-tier borders that divide the SCC region into two or more separate political entities. However, as illustrated by the case of Bern, the integration of the whole metropolitan region into one single second-tier political entity does not guarantee the successful coordination of locational policies. Furthermore, interviewees in Bern and Washington, D.C. do not consider horizontal institutional fragmentation, i.e. high numbers of local governments, to be a decisive factor that hinders the coordination of locational policies. In sum, vertical institutional fragmentation is a powerful constraint to the coordination of locational policies. However, it alone does not explain the successful coordination of locational policies.

Regarding local tax autonomy, it seems that the underlying rationale of tax competition, to ensure efficient and lean government entities, is at odds with the underlying rationale of coordination as a welfare theoretical concept (Scharpf 1994). More specifically, our cases point to an interaction effect between the two institutional factors: High local tax autonomy is an obstacle to the coordination of locational policies, but it only unfolds its full negative effect in vertically fragmented metropolitan regions. The combination of both institutional factors creates an unlevel playing field for local tax competition. The case of Washington, D.C. shows that jurisdictions with lower tax autonomy, i.e. fewer tax instruments at hand, compete more fiercely to survive this unlevel tax competition. In Washington, D.C., this interaction effect has led to beggar-my-neighbor behavior, which can be considered as full coordination failure. Tax competition in Bern is comparably moderate, as it is played on a level playing field. Local jurisdictions in the Ottawa-Gatineau metropolitan region have different tax settings because of vertical institutional fragmentation but limited local tax autonomy prevents fierce (tax) competition. This finding supports Leitner's and Sheppard's argument: "When cities in competition face unequal conditions of possibility [i.e. an unlevel playing field] these not only affect the nature of local initiatives but also work to undermine the putative general benefits of entrepreneurial strategies: (…), and creating zero-sum or negative-sum game of 'beggar thy neighbor'" (1999, 242).

These findings can be better understood once we distinguish between coordination as a process and policy coherence as the intended outcome of coordination (Cejudo and Michel 2017; Nordbeck and Steurer 2016). Whereas low vertical institutional fragmentation enables coordination as a process, locational policy coherence only occurs in contexts of low local tax autonomy. As the cases of Ottawa-Gatineau and Washington, D.C. demonstrate, vertical institutional fragmentation hinders the initiation of coordination because jurisdictions belong to different lines of authority. As the case of Bern shows, high local tax autonomy is not necessarily an obstacle for coordination. If the jurisdictions involved have high local tax autonomy, the coordination process does not result in locational policy coherence because too much tax revenue is at stake. Thus, institutional fragmentation can be considered to be the upstream explanatory factor because it is decisive for whether locational policy coordination is initiated or not, whereas local tax autonomy can be seen as the downstream explanatory factor, it is decisive for whether policy coherence is successfully achieved or not.

While our article found an interaction effect between the two hard institutional factors, the cases also reveal the importance of regional politics. This resonates with the ACI approach, which considers institutions to be entangled with actors' interests and subsequent political behavior. In Bern, local decision-makers fear losing the autonomy of their municipality, which is due to the fragmented organizational setting. The partisan divide between the core city and the municipalities in the agglomeration enhances this fear. In Ottawa-Gatineau, Quebec's separatist movement is an important barrier to coordination. In the case of The Hague, the new coordination structure between Rotterdam and The Hague can be viewed as a political power play between the province and its two biggest cities. In Washington, D.C., the three states' different political settings, as well as the very special constitutional status of the District of Columbia and the nation state's interests, all aggravate regional coordination.

Finally, the cities at the heart of this article have very specific functions. Their role as capital cities explains why jurisdictions in SCC regions may decide to coordinate their locational policies. However, the capital city function cannot serve as a sufficient metropolitan-wide integration concept. In Washington, D.C., the regional economy heavily depends on the capital city function. For example, locational policies formulated in the District of Columbia and Arlington are similar, but the unlevel playing field appears to trump any possible synergy for coordinating locational policies. Neither the capital city function, nor the common threat of federal government downsizing, has led to a coordinated locational policies agenda. In contrast, The Hague and Rotterdam possess two complementary economic bases, which enable the establishment of coordination structures at the metropolitan level.

Conclusion

The motivation of this article is to identify the specific need for coordinating locational policies in secondary capital cities (SCCs), defined as capitals that are not the primary economic city of their nation states. SCCs serve as the political center of their nations, but they must simultaneously find ways to develop their regional economies. Locational policies, and their regional coordination, are the main policy instruments available for strengthening the economic competitiveness of a metropolitan region. We derived a theoretical framework with two institutionalist explanatory factors for coordination and we expected that high institutional fragmentation and high local tax autonomy would aggravate the coordination of locational policies in a SCC metropolitan region.

Our article compares four SCC regions taken from a population of ten SCCs in Western countries. The comparison of Bern, Ottawa-Gatineau, The Hague and Washington, D.C. suggests that the combination of vertical institutional fragmentation and local tax autonomy explains the success or failure of the coordination of locational policies. Local tax autonomy has the greatest negative effect on coordination in vertical institutional fragmented metropolitan regions because this combination creates an unlevel playing field for tax competition. However, as initially expected, no institutional determinism is at work. Coordination is a matter of politics just as much as it is formed by institutional context. Urban and regional politics seems to be contingent on their institutional setting. Institutions allot decision-making power and coin actor identities, both of which determine actors' interests and behaviour.

These findings are a piece of bad news for SCCs because they tend to be located in metropolitan regions with vertical institutional fragmentation and have capital city-specific local tax autonomy constraints, making the regional tax playing field unlevel. Furthermore, the capital city function has not been found to serve as a metropolitan-wide locational policy integration concept. Therefore, we propose several recommendations to facilitate the coordination of locational policies in SCCs. First, the findings indicate that second-tier political entities, such as states, provinces or cantons, can emulate institutional consolidation, which supports inter-municipal coordination. Second, coordination comes with a political price tag. In order to foster coordination, the SCC region should have a common problem understanding that is accepted by all coordinating actors and that goes beyond the capital city function. Third, SCCs have an ace up their sleeve and may not realize it. The capital city function is a good argument for treating SCCs well. If the central government is reminded of the importance of having a well-functioning capital, it may direct resources to coordinating bodies within SCCs instead of to provinces or cities.

The institutional framework that we derived from theory serves as a simple but powerful research heuristic for analyzing coordination in metropolitan regions in general. Other types of secondary cities are also pressured to enter interurban competition by devising locational policies. Given the transboundary characteristic of locational policies, secondary city regions are likely to struggle with coordinating locational policies when there is vertical institutional fragmentation and high local tax autonomy.

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Figure captions:

FIGURE 1
Maps of the selected SCCs' metropolitan regions

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