Risk of electoral defeat and heterogeneous decentralisation

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Governments, decentralization and the risk of electoral defeat

In the last three decades several countries around the word have transferred authority from their national to their regional governments. However, not all their regions have been empowered in the same magnitude and important differences can be observed between and within countries. Why do some regions obtain more power than others? Current literature argues that variation in the redistribution of power and resources between regions is introduced by demand. Yet, these explanations are conditioned on the presence of strong regionalist parties or territorial cleavages. This article instead proposes a theory that links the government's risk of future electoral defeat with heterogeneous decentralisation, and tests its effects using data from 15 European countries and 141 regions. The results provide evidence that parties in government protect themselves against the risk of electoral defeat by selectively targeting decentralisation towards regions in which they are politically strong. The findings challenge previous research that overestimate the importance of regionalist parties while overlooking differences between regions.

Keywords: heterogeneous decentralisation, party competition, risk of defeat, Comparative Politics, Multilevel Models

Introduction

Decentralisation has become commonplace in Europe. Between 1990 and 2006, more than half of European Union member states experienced some form of power redistribution. For instance, in Italy decentralisation began with concessions in the administration of health-care made by the centre-right government to the Northern League and culminated in a referendum to federalize the country in 2008. In the United Kingdom, Westminster devolved significant decision-making power to Scotland, Wales and Northern Ireland, giving each jurisdiction its own Parliament (Treisman, 2007; Hooghe et al., 2010).

However, the degree and extent of devolution do not constitute a unified movement. Not all EU members have decentralized and the timing and depth of the reforms varies significantly

between countries and regions. For example, countries such as Slovenia have not formally redistributed any power, while the most radical changes in Croatia and Greece bestowed upon regions the possibility of participation in national policy design (Hooghe and Marks, 2012). In Spain, supporters of decentralisation have created regional legislatures to give more political autonomy in almost all aspects of policy-making to the Basque Country and Catalonia. Thus, it is possible to say that decentralisation is not a phenomenon equally experienced in all countries, but rather a dynamic process manifested at different speeds and frequency which makes easy explanations unlikely. This begs the question as to why central governments would give up power and transfer it to the regions and why some regions benefit more than others from such changes.

The existing literature on decentralisation does not provide a definitive answer to these questions. Most scholars have conceptualized decentralisation as a feature explained by the country's structural characteristics, highlighting the effects of economic development, country size, population, colonial history and ethnic diversity on the constitutional arrangements of power redistribution (Hooghe et al., 2010; Hooghe and Marks, 2012; Treisman, 2006; Arzaghi and Henderson, 2005; Garret and Rodden, 2003; Panizza, 1999; Erk and Koning, 2009). However, those explanations do not consider the politics and strategies behind decentralisation and thus are ill-suited to explain the process of decentralisation observed in Europe in the last three decades.

More recently, scholars have recognized that redistribution of power and resources is linked to political actors, either as the context in which they engage or as a by-product of their interactions (Brancati, 2006; Chhibber and Kollman, 2004; Erk and Koning, 2009; Amat and Falco-Gimeno, 2013; Massetti and Schakel, 2013; Ezcurra and Rodr´ıguez-Pose, 2013; Guinjoan and Rodon, 2014). While these approaches have been useful to show different rationales for

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decentralisation, we still need insights into why governments benefit some regions more than others.

The literature on asymmetric federalism has mainly concentrated on explaining asymmetric devolution in a limited number of cases, such as Spain, Belgium and the UK (Congleton, 2006; Agranoff, 2004; Moreno, 2002). However, these explanations are conditioned on the presence of strong regionalist parties or territorial cleavages (Hombrado, 2011), leading scholars to conclude that variation in the redistribution of power and resources between regions is introduced by demand.

This research instead puts forward the argument that heterogeneous decentralisation occurs when it is beneficial for the party in government, despite or regardless of the power held by regionalist parties when the risk of future electoral defeat increases, the party in government decentralizes to its sub-national enclaves. This is because by decentralising, the party in government gains access to an arena where it can accumulate the power and resources transferred and use them in the case of national electoral defeat.

This argument proposes a prospective explanation using insurance theory borrowed from economics (Willet, 1951). It focuses on parties in government and the use of decentralisation as a suitable strategy to protect themselves from the risk of national electoral defeat. I build on the work of O'Neill (2003) and Sorens (2009) to argue that parties are risk-averse prospective actors that seek power and base their strategies upon improving their standing after the next election. To protect themselves against the risk of becoming the opposition, parties opt for decentralisation as an insurance policy. However, I explicitly account for the fact that parties are risk averse and their risk aversion motivates them to benefit their regional enclaves above others where the party in government is not strong, thus leading to heterogeneous informal decentralisation that is not driven by the demand of regionalist parties.

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The argument is tested here using an original dataset from 15 European countries over a period of 15 years. Decentralisation is measured at the regional level, making regions the units of analysis and allowing me to address differences in regional gains of power. Explanatory variables are measured at regional and national level. These macro-micro relations are analysed using multilevel models which enable accounting for the particular national context in which decentralisation takes place, and enables the observation of the political dynamics behind devolution (Gelman and Hill, 2007; Steenbergen and Jones, 2002).

This research contributes to the literature on decentralisation, asymmetric federalism and party competition: 1) it proposes an original measure for risk of future electoral defeat; 2) it expands the number of countries studied, showing that the causal mechanism works outside the traditional sample of countries with strong national identities and regionalist parties; 3) it sheds light on preferences for decentralisation in government parties, showing that under certain conditions manipulating the asymmetries between regions it is a desirable strategy from the government's perspective, regardless of the strength of ethno-regionalist parties.

Explaining asymmetric decentralisation

Decentralisation is defined as a "shift of authority towards local government and away from central government, with total government authority over society and economy imagined as fixed" (Rodden, 2004, p. 482). Changes in the territorial allocation of power can be experienced in unitary and federal countries. They vary regarding the degree of autonomy, the type of power transferred to regions and the speed with which changes are implemented (King, 1982; Petersohn et al., 2015; Agranoff, 2004). The literature on Federalism and institutional design offers several explanations for the initial territorial power distribution and institutional safeguards (Bednar, 2011), but research on asymmetric change in power is still scarce (Petersohn et al., 2015;

Hombrado, 2011), especially when changes are not formally expressed in the constitution but the result of political strategies.

Most countries are formally symmetrical which means that all the territorial units that make up the union have, constitutionally, the same faculties and prerogatives (Tarlton, 1965; Buchanan, 1995). However, in practice, there is a natural degree of de facto asymmetry between regional units associated with their differences in size, culture, population, taxation capabilities and wealth (Tarlton, 1965; Moreno, 1997). They are the preconditions that set the grounds for de jure asymmetric federalism, which is the inclusion in the constitution of provisions granting additional faculties to certain regional units (Watts, 2001; Burgess, 2006).

A stream within the literature has explained de jure asymmetric federalism based on its potential to accommodate heterogeneous preferences and stabilize the union of different nations in one (Stepan, 1999; Keating, 2002; McGarry and O'Leary, 2009; Bermeo, 2002). Just a few scholars have looked at institutional change to face threats of secession (Kymlicka, 1998; Zuber, 2011) and its consequences for stability (Moreno, 2002; Burg and Chernyha, 2013; Hombrado, 2011; Massetti and Schakel, 2013).

A more political stream within the literature states that the channel through which de facto asymmetries motivate changes in de jure asymmetric distribution of faculties is via negotiations between levels of government. In Europe particularly, modern states were formed unifying very diverse territories with well-defined identities under one single national flag (Keating, 1999). Citizens conglomerated around territorial identities to form local organizations capable of establishing direct negotiations with the central government, the role of which was to regulate their actions and faculties and accommodate their demands (Agranoff, 1993, 1996). However, this regional organizations did not demand the same type of devolution or to the same extent (Congleton et al., 2003; Moreno, 2002; Van Houten, 2007), nor were they equally

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successful in their demands (Petersohn et al., 2015; Loeper, 2011; Amat and Falco-Gimeno, 2013; Bednar, 2009). Multiple interactions between the centre and the periphery with very distinct demands and negotiation capacities resulted in the asymmetric devolution of faculties (Agranoff, 1993, 2004; Congleton, 2006; Alonso, 2012).

However, the effect of regional parties on decentralisation is difficult to interpret. On the one hand there is additional evidence that national parties decentralize resources and decision-making power as a reaction to the strengthening of regional parties (Alonso, 2012; Gonzalez, 2007; Brancati, 2006). State-wide parties devolve power towards regions in order to make it more difficult in the long term for peripheral/regional parties to increase their electoral support. This implies that in democratic systems devolution is not a decision to protect the state from the secessionist threat. It is, instead, a decision made by state parties to protect their needed electoral majorities by preventing regional parties to get stronger in national elections (Alonso, 2012; Meguid, 2008). But, on the other hand, research suggests that citizens do not have incentives to vote for regional or provincial parties until they have already gained some power from the central government (Chhibber and Kollman, 2004; Brancati, 2008). Thus, it is unclear as to the strength of pressure exerted by regional parties to motivate their dominant state-wide counterparts to agree on asymmetric decentralisation (Hopkin, 2009).

Despite important advances made to analyse the causes of asymmetric decentralisation, the question of why central governments engage on it is far from settled. De facto asymmetries have been used to explain changes in the de jure organization of the country but there is still a gap in our knowledge of why future changes occur. This has implications on the type and generalizability of answers obtained. Research, with few exceptions (Van Houten, 2007), has focused on a limited number of cases (Moreno, 2002; Moreno and Obydenkova, 2013;

Petersohn et al., 2015; Burg and Chernyha, 2013; Zuber, 2011; Agranoff, 1993) or in the development of theoretical models (Hombrado, 2011; Loeper, 2011; Congleton et al., 2003). Interestingly, they have focused on analysing territorial change in regions that claimed a home to minority nations and where regional parties exist (Hombrado, 2011). Current findings seem to be at odds with the asymmetric transfer of power and resources observed in Spain, United Kingdom and Belgium, all cases with very strong regional parties and territorial cleavages. Yet, they do not explain preferences for heterogeneous decentralisation in countries like Norway and Austria where regional parties are weak or do not exist at all.

This paper departs from previous research that assumes regional parties and territorial cleavages are a precondition for asymmetric devolution (Sorens, 2009) and instead proposes an explanation that, independently of the presence of these elements, clarifies when and under what circumstances it is a desirable strategy for the party in government. I complement existing research by focusing on the actions of the national government while taking into account the multilevel nature of electoral competition. I show that the party in government can have preferences for devolution, even in the absence of regional parties, and that it takes into account the results of regional elections when deciding where to direct more resources.

It assumes that state-wide parties in government are concerned about their future (Strøm and Müller, 1999). They pursue informal heterogeneous decentralisation because it is a pre-emptive strategy to face the risk of electoral defeat. The party in government transfers power to those regions where it knows it is strong with the view of having this power available in the case of electoral defeat. This argument expands and builds upon that of O'Neill (2003) who argues that presidential governments in South America support decentralisation reforms when they have more possibilities of winning sub-national rather than national elections, and that this effect is stronger the more stable the government is. However, she assumes that decentralisation is an

infrequent uniform movement that will benefit all regions in the same magnitude, thus explaining homogeneous de jure decentralisation. Instead, this paper argues that parties are indeed risk-averse organizations and it is this risk that motivates them to decentralize, and also target certain regions to benefit more than others. Parties in government can manipulate the asymmetries between regions, and thus, it is this risk aversion that explains heterogeneous de facto decentralisation.

The following paragraphs detail the argument. Once a national election has taken place, parties are concerned with winning the next one. When the government senses it is at risk of losing the next election, it uses strategies to mitigate that risk and decentralisation is one such option. Through decentralisation, the party in government transfers part of the power it controls at the national level to an alternative arena where it will be available in case of future electoral defeat. The party in government can either engage in formal decentralisation, institutionalizing changes, or do it informally. Institutionalizing decentralisation requires the government to entertain negotiations with the opposition and it is unlikely that a strong opposition with possibilities of winning the next election, would agree with such reforms. There are several ways in which the government can manipulate resources and empower some regions above others without having to go through the process of institutionalizing decentralisation. For example, the government can initiate regional collaborations by provoking encounters with key investors, it can provide incentives for collaborations with certain areas or it can lend credibility to particular regional initiatives by participating on them (Thibert, 2016). Therefore, risk averse governments prefer informal decentralisation because it can be implemented without having to negotiate a formal, institutional change with the parties in opposition.

Now, it is possible to argue that if the government loses the next election the new government can easily revert the changes and therefore decentralisation cannot be used as

insurance policy. However, while it is more flexible than institutionalized decentralisation, informal decentralisation is still difficult to revert since the new government would have to constrain the resources available to the regions or can establish a timeframe for the changes to be in place. Re-centralization does not occur very often as it is an unpopular movement that will spark resistance in the region, antagonism of voters and increase the threat of secession (Eaton, 2014; Muro, 2015; Lewis, 2014).

Before decentralising, the party in government is likely to consider the sub-national party system and its own electoral dynamics which have an effect on how the costs and benefits of decentralisation are distributed. Because parties are risk-averse, they target their actions to avoid benefiting the opposition, and this is why some regions gain more power and resources than others. Thus, it is the prospect of losing the next election conditioned upon the availability of an additional sub-national arena where it enjoys entrenched sub-national support that motivates the government to decentralize. For non-contested elections, decentralisation may not become an issue. If the incumbent is facing uncompetitive elections, the uncertainty is low. Since the party in government is more certain it will remain in power it will have no incentives to decentralize and instead will prefer to keep the status quo or, if possible, to centralize.

To illustrate the intuition behind the argument, take, for example, the behaviour of the UK Conservative Party in the period between the Scottish Independence Referendum in September 2014 and the General Election of May 2015. Immediately after the referendum took place, PM David Cameron began to argue in favour of the creation of an English Parliament and devolution of power to England. Furthermore, in March 2015 four English cities were allowed to retain 100% of local business rates (Neville, 2015). This change was not motivated by a shift in public opinion, since different polls showed that only 5% of the population thought that the government should prioritize a reform on this direction (YouGov, 2014). It was also, not

motivated by the challenge of a regionalist party, since the English party system does not include any party with these characteristics.

Heterogeneous decentralisation toward English cities can be better explained by the support that the Conservatives have traditionally enjoyed in English constituencies and the uncertainty they faced to remain in government after the upcoming elections. After all, up to the last minute, the polls showed very similar percentages between the intention to vote Labour and Conservative (Sayers, 2014). By devolving power to England, the Conservative government transferred power to a region where it was electorally strong. In the case of losing the General Election, the party would have had access to more resources and policy faculties there while, if retaining government, as it did, it will not imply any additional cost.

Hence, this research puts forward the argument that when risk of electoral defeat increases, the party in government decentralizes to its sub-national enclaves. This is because by decentralising, the party in government gains access to an arena where it can accumulate the power and resources transferred and use them in the case of electoral defeat.

This can be summarized in the form of hypothesis:

Hypothesis 1 *Increased risk of future electoral defeat leads to more decentralisation in regions where the government is strong and less decentralisation in regions where it is not.*

Data and variables

The argument is empirically tested on a sample that includes 15 European countries and their 141 regions, selected following OCDE territorial grids classification and matching it with Eurostat definitions. The period covered is 1996-2010[1].

Information has been gathered from different sources: OECD Statistics, European Elections Database, ParlGov (D¨oring and Manow, 2015), the Comparative Political Data (Armingeon et al., 2014), the Comparative Manifesto Project (Volkens et al., 2014), the Quality of Government Dataset (Teorell et al., 2011), regional electoral data collected by Schakel and Jeffery (2012), and multiple national statistics web-pages.

Outcome variable

Scholars have divided decentralisation into different categories: administrative, political and fiscal (Treisman, 2007; Falleti, 2005; Rodden, 2004) while emphasizing conceptual differences between decentralisation, federalism and interdependence (Bolleyer and Thorlakson, 2012; Rodden, 2004). A more general view of decentralisation is that it involves the authority to raise and spend revenue, elect local officials, and decide on and administer policies (Hooghe et al., 2010). But there is still no real consensus on which aspects of decentralisation are more important than others, in deriving in a variety of possible ways to measure it.

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[1] The higher regional level for OCDE, TL2, is highly consistent with the definition of a NUTS 2 region by Eurostat. In the cases of Belgium, Greece and the Netherlands NUTS 2 level correspond to the OECD TL3 and Germany where the NUTS1 corresponds to the OECD L2. For the United Kingdom the Eurostat NUTS1 corresponds to the OECD TL2. In the case of Estonia, L3 and NUTS 3 are used because it is the next level of government.

One alternative is to view decentralisation as a dichotomous concept. Either countries pass devolution reforms or they do not (O'Neill, 2003). But this approach will lead us to observe only *de jure* decentralisation and treat reforms of different magnitude and in different matters as the same. Another alternative that provides a fine grain measure is to use the Regional Authority Index (Hooghe and Marks, 2012) which differentiates between regional self- and shared-rule to create an additive score that include the policy areas in which the region has authority, the right to appoint and elect its officials, the capacity to raise and spend its own revenue and to co-participate in national decision-making processes. This score can be compared across countries and over time. However, the RAI has limitations. It provides scores at the regional level only when the jurisdictional level of the region differs from that of others in the tier. This means that only formal changes of decentralisation can be observed, leaving informal changes unstudied. But it also, in this particular case, it presents methodological limitations. Unfortunately, the RAI presents very little variation in the autonomy granted separately to each regions.

A suitable alternative to operationalize asymmetric decentralisation is to use measures of fiscal decentralisation (Oates, 1977; Tabellini and Alesina, 1990). Fiscal decentralisation refers to when the sub-national government has control over the tax base and rate and authority on expenditure. There is a debate among scholars on which aspects of fiscal decentralisation better tap into regional authority, the capability to raise revenue or the ratio between local and national expenditure (Rodden, 2004). Here, I follow the assumption that access to resources allows sub-national governments to fund and differentiate their own political programs (Rodden, 2004; Voigt and Blume, 2010; Stegarescu, 2005; Treisman, 2002). Thus, by "following the money" I tap into government manipulations to strengthen some regions above others. According to Hooghe and Marks (2012), the RAI is highly correlated with measures of fiscal decentralisation so I can be confident that by using this measures I am also taping into political and policy

decentralisation. Moreover, even if fiscal decentralisation does not guarantee complete

independence from the national government, control over their own resources gives sub-national

governments leverage to challenge the decisions made by the national government because they

will be less dependent on matching grants and intergovernmental transfers.

However, the theory requires differentiation between sub-national units, which poses the

additional challenge of finding measures of fiscal decentralisation disaggregated at the regional

level. Unfortunately, this information is scarce and when it is available, it is not comparable

across countries. To circumvent this issue I calculated separate values of regional tax revenue

using regional data available by the OECD. This organization releases, on a yearly basis, sub-

national Gross Domestic Product (GDP) and sub-national Gross Value Added (GVA). Both

values include regional and local information. The data is reliable and comparable between and

across countries as it is used later by the OECD to calculate national accounts.

Regional taxes (less subsidies) can be obtained by subtracting the GVA to the GDP

(OECD, 2003)[2]. This calculation of regional taxes less subsidies is positively and significantly

correlated with the national level measure of fiscal decentralisation provided by both, the CPD

and OECD. This national-level measure indicates the tax revenue of state and local government

as percentage of total taxation (including the revenue of central, state and local governments,

social security funds and supranational organizations)[3].

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[2] See the OECD statistics and Eurostat regional yearbook and the supplementary material for more
information on regional GVA and GDP and how they are calculated.

[3] Just to emphasize that this measure is not and cannot be used in the analysis as it is a national measure
and not available on a regional basis. The correlation only provides indication of the robustness of
the outcome variable here described.

Moving forward, using regional taxes (less subsidies) can be subject to criticisms. It can be argued, for example, that fiscal autonomy is only present when a regional government can set the tax base and that this cannot be manipulated informally by the national government.

However, the government have multiple ways of informally manipulating the amount of taxes (less subsidies) raised by the region. For example, it can change the structure of conditional and unconditional intergovernmental grants, as it has been found that this action has a direct effect on the expenditure and the amount of taxes raised by sub-national governments (Volden, 2007; Stine, 1994).

Moreover, it can be argued that the amount of taxes less subsidies may depend on many factors other than central decisions on the division of powers and resources and, most importantly, on the size of the regional tax bases. To address this concern I have calculated the share of taxes (less subsidies) of each region with respect to the total, an approach advocated by Rodden (2004) to deal with this issue. Finally, as regional share of taxes is always positive and highly skewed I transform it using the natural logarithm. Using the logarithmic transformation has the additional advantage of allowing interpretation of models as log-linear models that refer to changes in the share of taxes less subsidies given changes in the explanatory variables, thus, taking into account the starting differences in the regional share of taxes less subsidies. Therefore, the outcome variable used to test the argument is the natural logarithm of the share of taxes (less subsidies) raised by each region of the country on a yearly basis. Further information on how the dependent variable is calculated is provided in the supplementary material[4].

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[4] Regional share of taxes (less subsidies) is always positive, ranges between 0 and 1 and is very skewed. This particular distribution is common when dealing with economic time-series data and is often analysed after computing logarithms. Moreover, using the dependent variable in its original form resulted in important problems of heteroskedasticity that were solved with the transformation.

Explanatory variables

There are two components to the explanatory variable: the risk of losing and the government's sub-national strength. Thus, I first generate a national measure for the probabilities of the party in government losing the next election and then present the variable for entrenched support for the government in the region. These two variables together link national and sub-national political contexts to explain decentralisation.

Risk of losing and entrenched sub-national support

The theory proposed is that the risk of losing the next election motivates the party in government to decentralize to its regional strongholds. As a consequence, it is necessary to measure the risk of the party in government of leaving office.

A traditional approach is to use measures of electoral competition. Fowler and Smirnov (2007) and Franklin (2004) suggest the use of difference in votes obtained by the largest party in government and the major opposition. More recently, Kayser and Lindstädt (2015) go further, linking electoral competition with risk of defeat, defining it as the expected probability that the plurality party in parliament loses its seat plurality in the next election. However, there are some caveats to using this measure here. Kayser and Lindstädt (2015) use previous vote swings to predict future changes in the composition of the chamber but the theory presented here is about the risk faced by government of becoming the opposition, which of course relates to electoral results. But there are other external factors which affect the viability of a government and that motivate either its dissolution or the call for elections.

Here I take this into account and create a measure for risk of losing that is operationalized as the probability of the government losing the next election given a set of political institutions and exogenous factors. With this I address the need to look at future electoral performance while

taking into account the political, economic and institutional context in which elections take place. To achieve this I take into account insights from the literature on government stability and survival which has emphasized that the most obvious attribute that enhances government stability is a legislative majority, but that several other factors may affect its duration. For example, while majority governments have lower hazard rates and cabinets with high degrees of fractionalization experience higher ones, political and institutional changes encourage the call for elections (King et al., 1990), and international events or economic crises may jeopardize government viability. (De Mesquita and Smith, 2007; Acemoglu and Robinson, 2006; North and Weingast, 1989; Warwick, 1994; Laver and Shepsle, 1998; Lupia and Strøm, 1995; Grofman and Roozendaal, 1994).

The conceptualization of a government change as a change in the main party in the government coalition is consistent with the treatment given by Fowler and Smirnov (2007) and Franklin (2004). This is further supported by literature arguing that members of government coalitions tend to be stable as they are bounded by previous joint governing experience and ideology (Döring and Hellström, 2013).

Thus, risk of losing is modelled here as the predicted probability of the party in government losing the next election given a set of institutional and exogenous variables. The response variable, taken from Döring and Manow (2015), Y is binary and takes the value of 1 when a change in the main party in government is observed. The **political** predictors come from the Dataset of Political Institutions (World Bank) and include the vote share of the largest government party, the previous government's fractionalization index and the strength of previous opposition. The **institutional** variable included is the relative disproportionality between the number of electoral and parliamentarian parties (Comparative Political Data). Finally, **policy preferences and economic shocks** are accounted for with the inclusion of last year's expenses

in social benefits, inflation change and GDPpc (data from OCDE and IMF). Additionally, the **years left in current term** are added to the model to account for elections that are held before the incumbent finishes the term and the **number of other parties** in the coalition account for their effect on government stability and their leverage in the decision making process.

To calculate risk of losing, I ran a Probit model with varying slopes by country and election. Table 1 shows coefficients and significance of each predictor. As expected, political variables have a positive and significant effect on risk of losing but the results also show that government viability is jeopardized by decreases in GDPpc and, marginally, by changes in social expenditure. This further supports the idea that the risk to the party in government of losing is affected by economic as well as political factors.

Based on the model presented, I calculated the predicted probability of loss for the current government for each observation, which will be used as a measure for the risk of loss. The predicted probability of losing goes from 0 to 1 with a mean of .54. The model correctly predicts 69% of the cases, better than the naïve guess of 56%.

[Table 1 about here.]

Government's entrenched sub-national strength

The next step is to differentiate between regions where the party in government is strong and those where it is not. Sub-national support for the government is measured using the electoral results of regional elections. The variable takes the value of zero in regions where the party in national government lost the regional election and the vote share of the government party in the regional election otherwise.

The variable was created using the regional results of national elections obtained from Schakel and Jeffery (2012) and multiple national statistics websites. In cases when regional

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results are not available, I used regional results of national elections as reported in the European

Election Database.

The use of results from regional elections corresponds to the argument that state-wide

parties are concerned about the multilevel nature of electoral competition. The literature on

second order elections indicates that voters behave differently in regional and national elections

(Marsh and Mikhaylov, 2010). Thus, regional electoral results provide important information

about the possibility of government parties to create sub-national enclaves.

Controls

Several variables are found in the literature to affect the country's preferences for more

decentralisation are included as controls to test for alternative explanations. Also, regional tax

revenue can be influenced by other economic factors. Thus, it is important to include economic

and political controls measured either at the national or regional level.

Regional controls include the over-time stability of government's regional strongholds

using a counting measure for the number of years that the party of the PM has electorally

dominated the regional political scene. The model also includes the lag of regional taxes (log_e),

unemployment, population, the percentage of votes obtained by the regional winner of the

national election and the vote share of regionalist parties. The first two variables account for

differences in economic development and the third for differences in population size. This relates

to studies that suggests that these structural variables are key explanations for decentralisation

since they are linked with soft information and proximity to the median voter (Hooghe and

Marks, 2012; Panizza, 1999). Furthermore, their inclusion responds to evidence that voters react

to changes in economic development (Anderson, 2007) and to arguments that economically-

developed regions will favour decentralisation in the provision of public goods and services (Panizza, 1999; Hooghe and Marks, 2012; Arzaghi and Henderson, 2005; Treisman, 2006).

The vote share of regionalist parties accounts for the demand side of decentralisation. Since this research explains targeted decentralisation, it is possible to argue that those regions that claim more power will obtain it while areas without strong identities will not benefit; this is linked to research that argues that regionalist parties are active promoters of decentralisation (Brancati, 2006; Alonso, 2012; Agranoff, 2004; Moreno, 2002). To construct this variable I first identified those parties classified as regional or ethnic by Volkens et al. (2014) and then captured the vote share of each regionalist party in each region.

National controls include GDP (log_e), turnout, electoral rule and a dummy for federalism. Electoral rule is include to account for the links that some electoral systems form with constituencies (Norris, 1997). Single member districts create enclaves because in order to be elected, MPs and parties must engage with voters in clearly delimited geographical units (Mayhew, 2004; Bednar and Gerber, 2012). On the other hand, multi-member districts make it difficult to create regional enclaves, motivating MPs to engage in discussions of national concern (Gallagher and Mitchell, 2005).

GDP, as reported by the WDI in constant purchase parity prices (Teorell et al., 2011), is included to account for countries and times of high economic development when regions will be better off as result of an increase in total national wealth. The last control separates federal from unitary countries, where the baseline of decentralisation will be lower (Teorell et al., 2011).

Method and empirical analysis

The sample of 1,417 observations is clustered across 15 countries and 14 years. Since regional and national elections are not simultaneous in the majority of countries in the sample, I used the

number of years left in the current term to interpolate values of risk of losing between electoral years.

Data is analysed using multilevel linear models (MLM). These are a generalization of regression methods that allows for the inclusion of regional and country-level predictors with repeated measures, referred to in the literature as a cross-nested structure (Steenbergen and Jones, 2002; Gelman and Hill, 2007). There are important practical and theoretical advantages of using MLM here. The first is that results are less sensitive to differences in the number of observations and outliers. This is important because countries are diverse in the number of regions and elections held in the period covered. The second is that it allows us to account for heterogeneity between units in a comprehensive manner.

Results

Table 2 shows the estimations of a model with varying intercept by country and year. Since the outcome variable is measured as the natural log of share of taxes, the model can be interpreted as a percentage change in y given a unit increase on x. Thus, regardless of the original size of the share, the model explain changes on the share of taxes less subsidies given by changes in the explanatory variables.

The first model (baseline) only includes the main independent variables to test the argument presented here and variables to account for other alternative explanations. The second model (complete) includes all of the controls, while the third model (VIVS) adds varying slopes for risk of losing. The fourth model (after 2000) shows results after limiting the sample to only include observations after 2000. Finally, the last column shows results of a model that substitutes the continuous measure of regional support for the party in government for a binary measure that takes the value of one when the party of the PM won the regional election and zero otherwise.

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All models indicate that the interaction term is positive and significant. In line with the expectations derived from the hypothesis, the average effect of risk of losing on decentralisation is higher the greater the regional support for the PMs party. This suggests that changes in the amount of taxes less subsidies among regions is the result of national electoral considerations and the targeting of sub-national enclaves.

[Table 2 about here.]

The coefficient for the interaction term is the change in slope for risk of losing given changes in the strength of regional support for the government. The main effect of risk of losing here is understood as the effect of risk of losing when the government does not enjoy of regional support. For every unit increase in risk of losing, regions where the PMs party is not strong will decrease their share of taxes less subsidies by 4%. Meanwhile, for a one unit increase in risk of losing, regions that can be considered to be government enclaves will increase their share of taxes less subsidies by 22%. In this case, this means that going from 0 to 100% in risk of electoral defeat and government vote share in the region will lead to 22% larger share of taxes. The difference in coefficients can be seen in Figure 1[5].

The interpretation of an interaction term with two continuous variables can be difficult, even in this case when the zero is meaningful. In order to facilitate the interpretation and support the previous statement, the last column in the table swaps the continuous measure of regional

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[5] The dependent variable is measured using the natural logarithm. Consistent with the interpretation of a log-linear model, the effect of the interaction term is given using the exponential. For example in this case, exp(0.20) is 1.22 which means an increase of 22%. See Gelman and Hill (2007) for more details on interpretation.

support for the main party in government for a binary measure that takes the value of zero when the party of the PM did not won the regional election and 1 otherwise. The sign and significance of coefficients remains unchanged.

[Figure 1 about here.]

These results are consistent with the argument that parties in government use decentralisation as a pre-emptive strategy to address the risk of losing the national government. When the risk of electoral defeat increases, the party in government targets decentralisation towards those regions where it is strong. These regional enclaves will have, on average, a share of taxes less subsidies approximately 26% larger than their counterparts.

There may still be a question about rich regions having a higher share of taxes less subsidies than poorer regions and a possible criticism that perhaps these economic differences are driving the results. This concern is addressed by the inclusion of economic controls such as the baseline taxes raised by the region in the past year and GDP. Together, they control for different starting points (richer vs poorer regions), economic disparities and a more optimistic economic environment in general. As it can be seen in all models, the inclusion of economic controls do not wipe out the effect of the variables of interest. Thus, the effect of risk of losing and governmental enclaves is significant and robust to the addition of economic controls.

Demographic controls such as population and unemployment in the region as well as the long term support for the party in government are not significant. This indicate that they do not have an effect on changes in the share of taxes less subsidies.

It is worth highlighting that the vote share obtained by regionalist parties is not significant. This means that the pressure created by regionalist parties to transfer power to their regions does not motivate targeted decentralisation. This is interesting, and shows that

explanations of decentralisation and asymmetric federalism that are based solely on the strength of regionalist parties should be enriched to account for changes in decentralisation that occurred in a wider set of countries.

Electoral participation (turnout) is measured as the percentage of the population that voted in an election. Results indicate a significant relationship, when turnout increases decentralisation decreases. This result can reflect the effect of additional electoral dynamics and a wider interest in national politics, making decentralisation less relevant as a government strategy. The dummy for federalism is significant indicating that, as can be expected, the initial constitutional arrangements of distribution of power have a positive effect in later heterogeneous devolution.

Finally, adding varying slopes and intercepts for risk of losing allows me to observe the variation between countries of the effect that risk of losing has in regions where the PM is not strong. Greece and Finland present the strongest negative effect. The third model in Table 2 shows that average effect of the interaction term remains positive and significant, regardless of the specification.

Robustness checks

The baseline model, the complete model and the model that adds varying slopes provide consistent results in the variables of interest. In all cases, the interaction effect remains significant and positive with coefficients between 0.16 and 0.21. The fourth model shows that the results are consistent, even in a trimmed sample of observations after 2000. Thus, the effects observed are not driven by the international trend towards decentralisation observed in the 1990s.

Moreover, the model is very good at predicting decentralisation. The overlaying density plots presented in Figure 2 show the dispersion of the observed values and predicted values of $\log_e$ regional share of taxes. As can be seen, the majority of values overlap in the same area.

[Figure 2 about here.]

To ensure that the results are not driven by any single observation, I ran the same model 1,417 times, iteratively eliminating one observation at a time. Figure 3 shows that after the leave-one-out cross-validation (LOOCV) all iterations produced significant and positive coefficients for the interaction term with t-values larger than 1.96. Therefore we can say that the results are not driven by one single observation. In the supplementary material I present a LOOCV at the country level. Results are consistent in all cases.

[Figure 3 about here.]

In sum, it is possible to be confident about the robustness of the results. A trimmed subset of the sample provides approximately the same results and no single case alters the significance and sign of the interaction between risk of losing and sub-national support for the government.

Discussion and concluding Remarks

The results support the hypothesis presented and provide evidence that parties in government are risk-averse organizations: when the risk of future electoral defeat increases, they decentralize. But they do not decentralize to the same degree to all regions. The government targets those regions where it it is strong. This explains why some regions are favoured to a greater degree than others. When the risk of electoral defeat increases, regional governmental enclaves augment their authority over resources significantly more than those regions that do not support the party in government.

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The results have important implications for the literature on decentralisation and party competition. Previous studies have overestimated the effect of regionalist parties, mainly because they analysed cases where regional identities are very strong. Instead, this research uses regions-years from a broader sample of countries as a unit of analysis and measures decentralisation at the sub-national level. This allows us to observe differences between regions and countries and explain why some regions gain more power than others. No evidence was found supporting previous claims that population, unemployment and district magnitude shape decentralisation. Moreover, contrary to what has been suggested, the demand for decentralisation represented by regionalist parties does not motivate national governments to make the change; heterogeneous decentralisation is not targeted in regions where regionalist parties are strong.

This finding is of high relevance as it shows that previous literature has overstated the role of regionalist parties as drivers for change. It shows that once we expand the analysis to cases other than the UK, Italy, Belgium and Spain, the role of regionalist parties has been limited. Regionalist parties have a ceiling to their strength given by their territorial component. Previous research have not clarified why the national government will give up power and transfer it to regions where regionalist parties are a threat if this will empower them but since they are bound to their territory they will not become a threat in national elections. This article sheds light into this, making an important contribution to the understanding of regionalist parties and multilevel party competition.

There are important normative implications for the quality of democracy that can derive from this article's findings. Perhaps the most important relate to voting behaviour and representation. As it has been pointed out by Däubler et al (2018), in multilevel elections, it is already difficult for voters to discern which party is in government and opposition and to define policy preferences. The possibility that parties at the national level engage in informal

decentralisation as a response to face high risk of national electoral defeat, favouring their sub-national strongholds put an additional strain in voters at the time to define their preferences. This can, potentially, harm levels of political engagement of citizens who may prefer to abstain from voting altogether given the amount of additional information they will have to process in order to define their voting preferences.

However, there is at least one important limitation that must be addressed in future research. This relates to the capacity of a measure for fiscal decentralisation to disentangle tax collection from public policy design and spending. This question carries normative consequences. The causal mechanism assumes that the main goal of political parties is to enter into government and hold power, and that decentralisation is used as an insurance policy precisely because it allows that power to be transferred to other political arenas where it becomes accessible for the government. However, when examining fiscal decentralisation alone, it is not possible to say for certain if new real capacities were transferred to regions. It may be that they gain more resources, but that policy design prerogatives are still held by the central government. Without more fine-grained information on sub-national policy faculties, it is not possible to say for sure if this is the case. However, it has been noted that decentralisation has a spill-over effect and that there is no reason to believe that fiscal decentralisation does not empower regions to claim more authority in other areas (Falleti, 2005). In consequence, further research should focus on addressing the spill over effect of fiscal decentralisation in administrative and policy design capacities, measuring it at regional level and ensuring that the causal mechanism holds.

Something important to mention is that there is a tension between party strategies and the availability of choices. The legal framework, the political and electoral system may limit the availability of strategies and choices available to parties in risk of defeat. This means that in some contexts, a decentralisation strategy can be easily implemented to face the risk of future

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electoral defeat while, in some others, it may not be possible. For example, the manipulation of resources may be easier in countries with weak fiscal oversight. Additionally, this research has not considered the role of other parties forming the government coalition. In some contexts they may play a key role in restraining the capability of the government for fiscal manipulation in times of electoral uncertainty. Thus, it is possible that decentralisation is not available as a strategy to all political parties at risk of future electoral defeat but is context-specific.

Even when decentralisation as strategy is available, it faces potential limitations. Perhaps the most important one is the current amount of power already available at the regional level. Since decentralisation can lead to secession, parties at risk of future electoral defeat need to be careful not to reach this point. This make it easier to decentralize when regions do not enjoy of any regional authority than when they are already empowered. Also, for example, if the region already enjoys of full fiscal autonomy it is unlikely that the government can manipulate fiscal transfers anymore. Thus, an additional limitation to the strategy is linked to current levels of decentralisation.

Here decentralisation has been defined as the share of takes less subsidies raised by the region. This is different from simple resources transfer because it reflects on the resources raised by the region and not transferred by the government. Of course, a way to manipulate this can be either raise the tax collection or increase subsidies. In both cases they will be at the discretionary use of the regional government.

Taken together, the findings allow for some generalizations. The most relevant is that the risk of future electoral defeat creates incentives for parties in government to engage in decentralisation. It has been shown that when electoral competition is high, the government can agree on devolving power to regions. Such moments of high uncertainty can be capitalized by the opposition as well to put forward other important policy reforms in the agenda.

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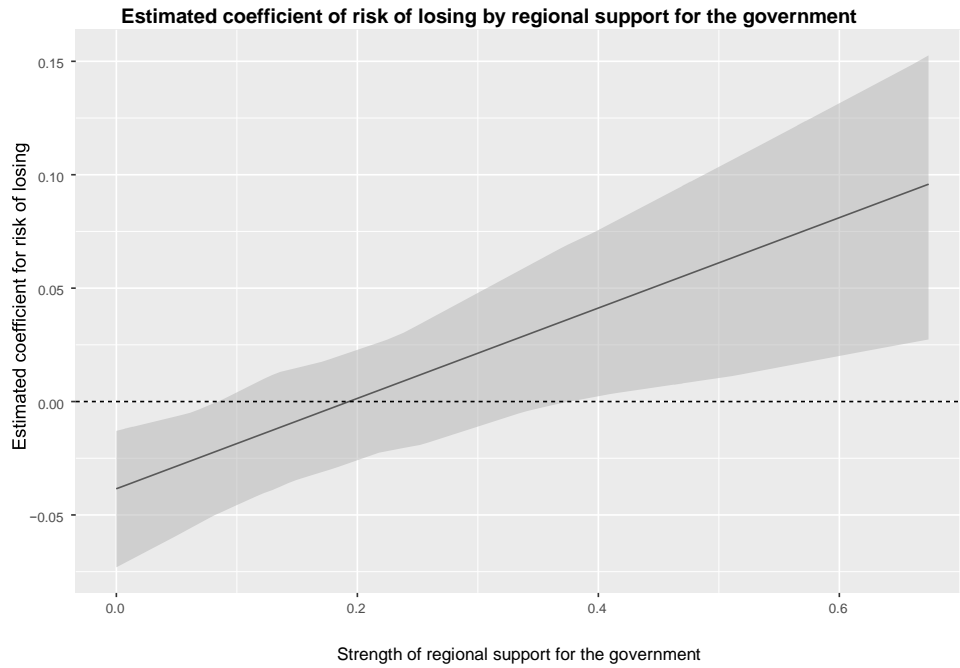
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Figure 1: Conditional effect of the interaction term
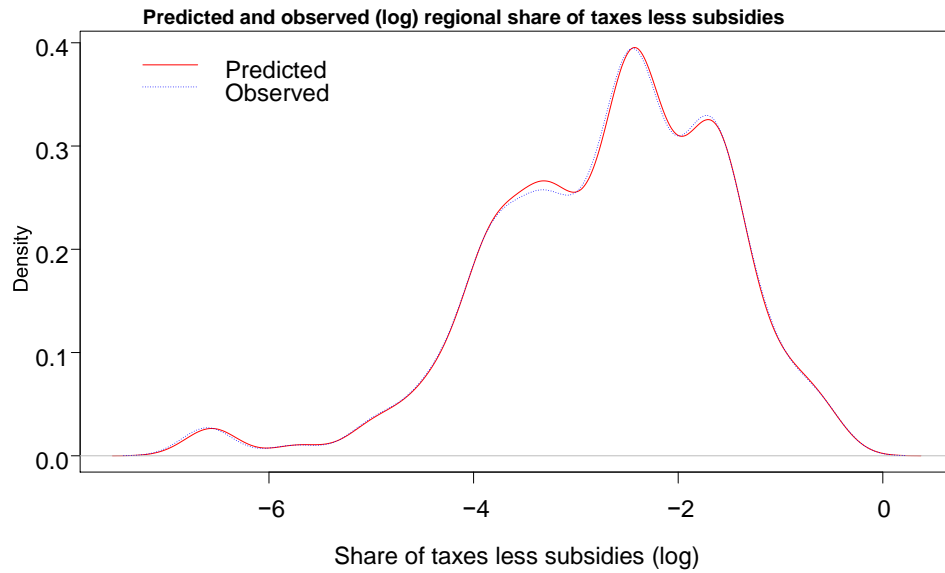

Figure 2: Comparison between predicted and observed decentralisation

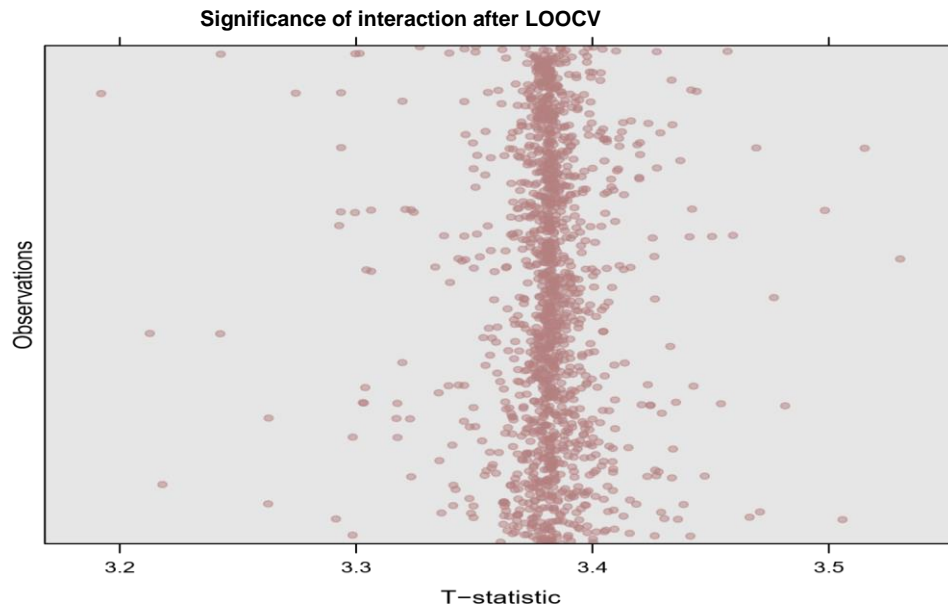Figure 3: Leave-one-out cross-validation

List of Tables

Table 1: Risk of future electoral defeat

	Risk of defeat
Intercept	-6.44*
	(-2.61)
Vote share	0.07*
	(-0.04)
Strength of previous opposition	7.85***
	(2.31)
Last government fractionalization	4.67**
	(1.49)
Disproportionality	4.04*
	(1.82)
Inflation	0.08
	(0.08)
Social expenditure	−0.60·
	(0.33)
GDPgr	−0.24**
	(0.09)
GDPpc	−0.37·
	(0.22)
Number of other parties in gov.	−0.34
	(0.25
Years left in term	−0.05
	(0.18)
AIC	115.06
BIC	146.81
Log Likelihood	-44.53
Num. obs.	85
Num groups: country	15
Num groups: election	7
Variance: country (intercept)	0.00
Variance: election(intercept)	0.00
Variance: Residual	1.00

***$p<0.001$,88$p<0.01$, *$p<0.05$, '$p<0.1$

Table 2: Results of statistical models explaining decentralisation

	Baseline	Complete	VIVIS	After 2000	Binary interaction
Intercept	0.01	0.09	0.12	0.13*	0.1
	(0.05)	(0.06)	(0.06)	(0.06)	(0.06)
Risk of losing	-0.03*	-0.04*	-0.07	-0.03*	-0.04**
	(0.02)	(0.02)	(0.06)	(0.01)	(0.02)
Regional support for PM	-0.04	-0.04	-0.03	0.05	
	(0.03)	(0.03)	(0.03)	(0.03)	
Vote share of winner of nat. election	-0.04	-0.05	-0.04	-0.05	-0.05
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Vote share of regional parties	-0.00	-0.00	-0.00	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
R. Taxes (t-1)	0.99**	0.98***	0.99***	0.99***	0.98***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
GDP	-0.94***	-0.95***	-0.96***	-0.96***	-0.95***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Stability of stronghold	0.00	-0.00	0.00	0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Risk of losing: R. support for PM	0.21***	0.20***	0.15*	0.16**	
	(0.06)	(0.06)	(0.06)	(0.06)	
Federal		0.14*	0.15**	0.14*	0.14**
		(0.06)	(0.05)	(0.06)	(0.05)
R. population		-0.09	-0.18	-0.06	-0.12
		(0.32)	(0.32)	(0.3)	(0.32)
R. unemployment		-0.05	-0.04	0.05	-0.05
		(0.07)	(0.07)	(0.07)	(0.07)
District magnitude		0.12	0.13*	0.08	0.12
		(0.06)	(0.06)	(0.07)	(0.06)
Turnout		-0.20*	-0.24**	-0.24	-0.22*
		(0.09)	(0.09)	(0.09)	(0.09)
Winner of R.E. is PM (binary)					-0.01
					(0.01)
Risk of losing: winner is PM (binary)					0.10***
					(0.02)
AIC	-2142.16	-2129.09	-2203.89	-2168.45	-2131.87
BIC	-2079.08	-2039.73	-2104.02	-2080.66	-2042.52
Log likelihood	1083.08	1081.54	1120.94	1101.22	1082.94
Num. obs	1417	1417	1417	1292	1417
Num groups: year	15	15	15	11	15
Num. groups :country	15	15	15	15	15
Variance: year(Intercept)	0	0	0	0	0
Variance: country(Intercept)	0.01	0.01	0.01	0.01	0.01

Variance: Residual	0.01	0.01	0.01	0.01	0.01
Variance: country, Risk of losing			0.04		