INTRODUCTION: Ex Uno Plures. Welfare Without Illusion

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SPECIAL ISSUE: EX UNO PLURES. WELFARE WITHOUT ILLUSION
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Two competing visions of federalism have long held sway. The first is centered on the idea of an administrative system of delegation based on a geographic partitioning of the polity. The second view sees federalism as a bottom-up structure in which the larger polity is a construct of the smaller polities of which it is composed. The first begins with the larger polity and sees "de-"centralization as a structural feature of the more inclusive entity. In that sense, sovereignty remains unified in the larger polity – federalism is at best a convenient mechanism by which the central state delivers its governmental mandate. The second vision by contrast sees sovereignty to be intrinsically divided: citizens of the less-inclusive entities are only partially citizens of the more-inclusive, because there are limits to the extent to which their political powers extend across federal borders.

In this edited collection, the object is to use these rival visions of a federal structure as a lens through which to analyze the various interconnections between the welfare state and its financing. Specifically, the claim is that the effects of federalism cannot be fully understood without consideration of the vision of federalism that the participants in their various roles adopt. One important aspect of the vision is the attitude taken toward grants from the central to subsidiary-level governments. In the top-down view, such grants represent simply the judgment that taxes and expenditures are subject to different patterns of optimal decentralization. In the bottom-up view, such grants break what is a critical link between spending and taxing decisions at the level of each sub-national jurisdiction. The link between spending and taxing has long been held to be a critical feature of an effectively-working 'fiscal political economy' (most notably since the time of Wicksell) – and 'bottom-up federalists' are inclined to identify transfers between levels of government as a source of illusion and a smokescreen leading to fiscal irresponsibility.

One way of conceptualizing the distinction between a federal order and a unitary state is to see genuine federalism as the logical completion of a Montesquieuian division of powers. In the original Montesquieuian version, the 'division' was limited to the horizontal dimension – that is, to different elements of the governmental apparatus operating at the same level of the federal partition. But the core element of federalism lies more in the vertical division of powers, which reconciles taxing and spending powers in the hands of each single government. In a word, the vertical dimension is grounded on the reunification of the two sides of the fiscal accounts that economists (Keynes, Samuelson, Musgrave) had traditionally kept separated. Each government at its own level has, at least conceptually, the potential to instantiate the logic of exchange; an exchange ultimately between citizens of a political unit (with the relevant state apparatus as a mere veil orchestrating such exchanges). But no such exchange can be envisaged if the fiscal system does not require each government to "pay its own way" in relation to the expenditure commitments which that government makes. It is tempting in this connection to draw a distinction between genuine and spurious federalism. While this distinction may be clear enough from the theoretical point of view (see, for example, the Eusepi and Wagner paper in this issue), it may well be difficult to draw in practical cases, because so much depends on the vision that participants themselves have of the 'federal order' in which they operate. In a genuine federal system there is still room for intergovernmental transfers, but the direction and dimension of transfers are rather different from those that take place in an administratively decentralized unitary state. The paper by Geoffrey Brennan and Jonathan Pincus, which deals with horizontal equality, critically illustrates this point. The relationship between federalism and public debt is discussed in the papers by Lars Feld and Thushyanthan Baskaran, and by Reiner Eichenberger and David Stadelmann, respectively. Their blow-by-blow account of the mechanisms by which increased tax autonomy in a competitive federal setting might be expected to reduce the use of debt shows how a loose fiscal constitution can fail to achieve sound public finance. In a perspective view, Eichenberger and Stadelmann claim that an underlying premise of indebtedness prevention is the allotment of shares of the existing debt to different tiers of government, in a setting where bailout is forbidden. This would work not only in a federal organization, but also in a unitary state – where, however, bailout by a central government can hardly be impeded.

The fact that in a unitary state only the central government is a genuine government *stricto sensu*, with sub-central governments acting as administrative appendices, obscures the fact that it is precisely sub-central governments that are responsible for creating a non-negligible share of the existing public debt. Perhaps a limit to the power <u>not</u> <u>to</u> <u>tax</u> should be imposed on sub-central governments!

The Richard Wagner paper discusses "raising" and "leveling" as alternative conceptual frameworks for viewing the social organization of welfare. In Wagner's account, the problem of promoting welfare is not so much that of leveling incomes through programs of taxing and transferring, but rather that of raising incomes. The thesis that Wagner develops posits that the latter formulation leads to an alternative orientation toward the relationship between federalism and welfare, and in particular that genuinely competitive federalism truly offers the key to enhance welfare-raising activities.

Friedrich Schneider's analysis of the shadow economy in 21 OECD countries indicates that federalism has no statistically significant effect on the size of the shadow economy.

Unconventional approaches to federalism are offered by two papers. The first, by Philip Jones and Nils Soguel, focuses on understanding the impact of citizens' motivation to vote on the pattern of fiscal federalism. To this end, the authors test predictions with reference to a case study analysis of the way in which Swiss voters assessed the role that their local jurisdiction should play. The second paper, by Bruno Frey, highlights the role that decentralization (whether associated with genuine or spurious federalism) may play in combating terrorism.

The works collected in this special issue represent a selection of the papers presented at the conference "Ex Uno Plures. Welfare without Illusion," held

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