Decentralized Governance, Constitution Formation, and Redistribution

ERIK WIBBELS
Department of Political Science, University of Washington

Abstract. What determines the relative strength of central and regional governments? Why do centers engage in more or less geographically based economic redistribution? And why do some centers redistribute from urban to rural areas while others do the opposite? This research answers these questions with reference to decentralized politics at key constitutional moments. Much contemporary research underscores the importance of the intergovernmental balance of power – be it in taxing authority or decision making autonomy – on economic outcomes. Many features of that balance are rooted in bargains struck at the time of constitution writing. Here, I suggest that the key ingredients in such bargains are the number of conflicting geographically salient factor endowments, the distribution of inter-regional inequality, and the degree of intra-state inequality within rural and urban regions. The greater the level of factoral conflict, the more elites who engage in constitutional negotiations are likely to constrain the central government by providing for substantial regional veto authority. Higher levels of inter-regional inequality heighten demands for inter-regional redistribution. Given some level of regional demand for central redistribution, whether its net effect is in favor of urban or rural regions will depend on the coalitional implications of inequality within regions. I examine the argument in light of the U.S., Argentine, and Indian processes of constitution formation.

JEL classification: P16

Keywords: federalism, decentralization, constitutions, redistributive politics, political economy

This paper aims to provide a general explanation for the decentralized underpinnings of constitution formation and economic development. Two empirical puzzles and a theoretical shortcoming motivate the research. The first empirical question emerges from research on comparative federalism that has shown that the vertical distribution of authority within nations has significant implications for economic policies. It has become increasingly clear, however, that many of the crucial factors underpinning the vertical distribution of power in a political system (such as tax authority, for instance) change slowly and are rooted in historical circumstances, particularly the initial intergovernmental balance of power established in constitutions. The classic federalism question is: What explains the variance in this initial balance across cases? Second, and closely related, we have accounts of national economic policy that redistributes resources from urban to rural constituencies (various descriptions of import substitution industrialization, for instance) and others that show a strong urban to rural redistributive bias (many contemporary federations). This variance too seems to be related to the vertical distribution of power in political systems. But what explains why a government redistributes in one direction rather than another? These empirical questions suggest a theoretical shortcoming in our understanding of
the underlying factors that affect the initial balance between national and subnational power at the time of state formation as well as the subsequent implications for economic development. Despite a rich historical literature on the resolution of regional bargains in particular national contexts, we do not have a very good set of theoretical expectations as to what shapes the initial constitutional compromises that create more or less powerful central governments across cases. The constitutional political economy literature helps us think about these issues, but that work has focused mostly on the stability and impact of constitutions once established rather than the conditions leading to variations in their intergovernmental structure.

My ultimate aim is to draw on the constitutional political economy, comparative federalism, and institutions literatures in order to explain why initial constitutional arrangements develop as they do and how those institutions affect developmental paths – particularly which level of government becomes the locus of economic policy, the degree to which economic policy is regionally redistributive, and the direction of that redistribution. I hypothesize that elite interests at the time of constitutional negotiations are fundamentally informed by the heterogeneity of regional factor endowments and have crucial implications for the vertical distribution of governmental power and that the inequality of assets across regions establishes the level of demand for inter-regional redistribution. These two factors subsequently interact with the degree of intra-regional wealth concentration to determine the urban/rural coalitions in favor of redistribution and whether redistribution goes to urban or rural regions. I explore the argument empirically by analyzing the patterns of regional asset concentration, the heterogeneity of regional factor endowments, constitution creation, and modes of economic development in the early decades of the United States, Argentina, and India.

1. Decentralized Governance, Constitutions, and Economic Development

The comparative political economy of decentralized governance has become a dynamic research area at the intersection of political science, economics, and public policy. For decades, researchers have suggested that decentralized governance leads subnational governments to compete with one another and check the power of the national government. This competition supposedly ensures an efficient delivery of public goods (Tiebout 1956), limits government intervention in the economy (Brennan and Buchanan 1980), brings decision-making closer to citizens (Oates 1972), and encourages the emergence and maintenance of effective markets (Weingast 1995). Recent research on nations such as Canada, Argentina, Brazil, Russia, and India, however, tells a very different story. In these countries, decentralized institutions can create incentives for subnational politicians to distort economic policy with serious negative consequences for economic growth and/or long-term development. Regardless of the pros or cons of any particular federation, it seems quite clear that the shape and structure of federations has important implications for the making (and breaking) of economic policy.