

THE PUZZLE OF FEDERALISM: A New Answer

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Abstract

Does federalism matter for democratic longevity? Most scholars would reply first: *YES*, and then most probably add: *Positively*. We show in this paper that federalism is not a positive for democratic stability. This surprising result derived from a stepwise regression approach explains why several federal states are authoritarian or instable.

Introduction

The argument in favour of federalism as a political regime or state format can be outlined in two very different ways. First, there is the cautious position arguing that a federal state performs well when there are certain exceptional circumstances. Federalism would not in general be the most suitable institutional framework for the modern state, but it would deliver good outcomes when exceptional conditions are at hand. Second, there is the daring hypothesis that federalism is “the mother of democracy”, meaning that any democratic regime could employ this state format with very good outcomes.

Here we have an interesting possibility of a crucial experiment, as two hypotheses contradict each other. Either federalism offers limited benefits depending upon the special situation. Or federalism always delivers positive outcomes. One can find several scholars who have argued for these two different positions (Braybrooke 1983, Dahl 1983, Elazar 1987, Watts 1998, Linz 1999, Stepan 1999, Bermeo 2002, Boix 2002). What makes this question about the outcomes of federalism even more intriguing is that there is no straightforward empirical strategy for testing whether the cautious or the daring hypothesis about federalism is correct.

The entire problem of empirical validation comes up when federalism is to be tested by means of the new institutional approach. First we have the thorny question of which countries are the federal ones. The universe of discourse needs to be established when the outcomes of the operation of federal institutions are to be analysed, as one needs to know how to compare which federal with which unitary states. The task is mind-boggling: the two best performing states of the world – the United States and Switzerland – are truly federal (Frey and Stutzer 2000, Feld and Kirchgässner 2001, Wälti 2001), but so are also two of the least successful states of the world: Nigeria and Argentina.

The purpose of our paper is to examine the question of federalism from an institutional performance perspective, dealing especially with the difficult methodological problem of how to analyse the outcomes of federalism when many different countries are considered to be federal states such as e.g. Germany (FRG) and the United Arab Emirates (UAE).. The answer that we suggest is to rely fully upon the regression technique. If federalism displays true positive performance, then why does it not show up in many cases?

NEW INSTITUTIONALISM: What do rules cause?

The first modern institutionalist was Max Weber who emphasized that rules can only be causally effective when they are actually believed in and regarded as legitimate norms guiding the conduct of real behaviour. He actually stated that all countries have real constitutions which may be very different from the formal or written one, also the countries with no formal constitution such as the UK. The enacted or codified constitution could only matter for real outcomes when the norms it contained constituted a so-called *valid order*, i.e. the norms are orientated towards by the participants in action and either followed or broken.

Here we have the nudge of the difficult question of assessing the doctrine of federalism, whether in its modest or radical version. Let us pin down the problem explicitly in one sentence about the federal question:

(FQ) When is a state to be considered as “federal”?

More precisely: Is a state federal when it calls itself “federal” or is a state federal when it has a decentralized framework of real operations, including a state which designates itself as “unitary”?

The basic point of the philosopher of science P. Feyerabend, who argued the case for methodological anarchy in *Against Method* (1993), was that key methodological decisions by scholars debating competing hypotheses constitute simply arbitrary decisions that are made in the interests of the scholar in protecting their argument (Lakatos, Motterlini and Feyerabend, 2000). Evaluating federalism hinges critically upon what is to be called “federal”. A definition of a concept is neither a true or false statement. It is merely a convention or a stipulation. A scholar may define “federal” in several ways, all of which will guide research differently.

Take the theory of federalism with Daniel J. Elazar (1987), which is of the daring kind. Elazar propagates the general theory of federalism stating that it always provides the institutional bedrock for good outcomes (Elazar 1995: 475). But how can he vindicate such a position methodologically? The answer is simply that he makes a clear choice between two alternative definitions of a federal state:

(DFF1) A state is federal if it recognizes itself as such by using the words “federation”, “confederation” or “union”.

This formal or nominal definition may be contrasted with a real definition:

(DFF2) A state is federal if it harbours a decentralized democratic state.

These two definitions – DFF1 and DFF2 – are altogether possible but they have greatly different consequences for research. We now wish to show that the first definition cannot be employed to vindicate the claims of federalist theory. In fact, the empirical evidence concerning DFF1 indicates that federalism is not an institutional asset.

Starting from DFF1 one arrives at what one may call the “puzzle of federalism”, namely that many countries who auto designate themselves as “federal” or “federations” are not democratically stable or democratic at all. Thus, federalism could not possibly be a sufficient

condition for democracy or democratic longevity. It certainly is not a necessary condition, given the many unitary states that are democratic. What, then, does federalism impact upon?

THE DATA AND THE METHODOLOGY

To analyse the outcomes of federalism we have created a small data file consisting of most recently available information concerning the following variables:

- The independent variable: a categorical classification of states as unitary (0) or federal (1).
- The dependent variable: an interval scale on the extent of democracy (DEMO)
- The control variables: a list of factors that influence democracy according to the new institutionalism literature.

Table 1 has the countries that tend to be classified as federal states with several authors. They amount some 30 countries of the world, using the formal definition above, i.e. DFF1. These are the countries that will be submitted as federations in a performance test upon federalism.

Table 1: Identification of federal countries in the 1990s according to various authors

COUNTRY	FEDFOR	BWD99	DD99	DD89	WATTS99	WATTS96	ELAZA95	ELAZA91
Argentina	1	1	1	1	1	1	1	1
Australia	1	1	1	1	1	1	1	1
Austria	1	1	1	1	1	1	1	1
Azerbaijan	0	1	0	0	0	0	0	0
Belgium	1	1	1	0	1	1	1	0
Bosnia and Herzegovina	1	1	1	0	1	0	0	0
Brazil	1	1	1	1	1	1	1	1
Canada	1	1	1	1	1	1	1	1
Comoros	1	0	1	1	1	1	1	1
Czech Republic	0	0	0	1	0	0	0	1
Ethiopia	1	0	1	0	1	1	0	0
Germany	1	1	1	1	1	1	1	1
India	1	1	1	1	1	1	1	1
Madagascar	0	1	0	0	0	0	0	0
Malaysia	1	1	1	1	1	1	1	1
Mexico	1	1	1	1	1	1	1	1
Micronesia	1	1	1	0	1	0	0	0
Nigeria	1	1	1	1	1	1	1	1
Pakistan	1	0	1	1	1	1	1	1
Russian Federation	1	1	1	1	1	1	1	1
South Africa	1	0	0	0	1	1	0	0
Spain	1	0	0	0	1	1	1	0
St Kitts and Nev	1	0	1	1	1	1	0	0
Sudan	0	0	1	0	0	0	0	0
Switzerland	1	1	1	1	1	1	1	1
United Arab Emirates	1	1	1	1	1	1	1	1
United States	1	1	1	1	1	1	1	1
Venezuela, RB	1	1	1	1	1	1	1	1
Yugoslavia, FR	1	1	1	1	1	1	1	1

Note: FEDFOR = Forum of Federations 2003; BWD = Britannica World Data 2000; DD = Derbyshire and Derbyshire1989 and 1999; WATTS = Watts 1996 and 1999; ELAZA = Elazar 1991 and 1995.

The list of federations is truly a morph or ambiguous, consisting of both giant states and tiny ones, First World countries and Third World ones, as well as highly stable ones and countries in anarchy or civil war. If federal states have little in common, then perhaps federalism does not display a determinate effect upon democracy? Only the regression method can reveal something about the puzzle of federalism. What we wish to find out is whether federal institutions matter for democratic stability when the partial impact of other known factors has been taken into account. Besides institutional factors such as parliamentarism and the existence of an Ombudsman we will employ corruption and state age as control variables (Lijphart, 1999; Lane and Ersson, 2003).

Given that we wish to test the specific hypothesis that federalism matters for democratic longevity, we start out from the correlation between federalism. Then we add other factors to federalism in a multiple regression equation to be tested on both federal and unitary states. It is a well-known fact that federalism displays a weak association with democracy according to a simple correlation. Perhaps the association is strengthened when other factors are added in a multiple regression equation? Or could it really occur that the partial effect of federalism is negative in relation to democracy when more important factors have been identified and specified in an equation?

FINDINGS

We will not enter a discussion about which countries are truly federal ones. In stead we will employ all the classifications listed in Table 1. One would expect that federalism would correlate weakly with democracy given the fact that many federal countries constitute stable democracies. Table 2 brings out this fact, independently of which classification is chosen. One should, however, note that the relationship is sensitive to countries included in the sample. The large sample (N=156) contains all cases included in the sample whereas the smaller sample (N=93) represent the cases where there are no missing data for the regression models estimated later.

Table 2: Federalism and democracy: bivariate correlations

	FEDFOR	BWD99	DD99	DD89	WATTS99	WATTS96	ELAZA95	ELAZA91
r (N=156)	,195	,163	,127	,165	,195	,191	,166	,146
Sig.	,014	,042	,114	,039	,014	,017	,039	,070
r (N=93)	-,009	,023	-,056	-,021	-,009	-,009	,003	-,021
Sig.	,929	,826	,595	,839	,929	,929	,974	,839

Note: See Appendix 1.

To show how the interaction between federalism and democracy varies we employ a procedure reminiscent of the stepwise regression technique . Moving from left to right in the models estimated we are adding new factors to the basic model of federalism and democracy. All in all we thus test six different models. First, in Table 3, we estimate these six models on a varying larger sample. Here we find that the partial effect of federalism reverses sign as we go from a simple bivariate model to a more complex model containing six predictors. In model 1 federalism has a positive and significant impact whereas the impact decreases the further we go to the right In Table 3. In the final model 6 the impact is significantly negative. This

change in impact is due to both the models estimated as well as the cases included in the analysis.

Table 3. Federalism and Democracy: Regression estimates (varying larger sample)

Indep vars	Coeffs	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Federalism	coeff	1,538	,686	,425	,152	-,315	-,794
(WATTS99)	t-stat	2,47	1,331	,87	,33	-,80	-2,22
Ombudsman	coeff		2,221	1,766	1,304	,663	,636
	t-stat		8,904	6,93	5,36	2,99	2,94
State age	coeff			,015	,009	,003	,007
	t-stat			4,56	2,61	,95	2,10
LN GNP 1998	coeff				,715	1,061	,756
	t-stat				3,82	5,03	2,76
Parliamentarism	coeff					,185	,107
	t-stat					,96	,58
Perceived corr.	coeff						-,143
	t-stat						-1,25
Constant	coeff	5,591	4,133	3,131	-1,707	-3,166	,145
	t-stat	22,46	15,86	9,511	-1,23	-2,204	,05
Adj rsq		,032	,358	,432	,474	,521	,604
N		156	156	156	144	114	93

Note: See Appendix 1.

The next step, therefore, is to estimate the same six models for the constant smaller sample (N=93). Here we may note in Table 4 that from model 3 to model 6 the estimated parameters of federalism on democracy are significantly negative.

Table 4. Federalism and Democracy: Regression estimates (constant smaller sample)

Indep vars	Coeffs	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Federalism	coeff	-,050	-,469	-,881	-3,046	-,850	-,794
(WATTS99)	t-stat	-,09	-,96	-2,15	-2,20	-2,39	-2,22
Ombudsman	coeff		1,440	,987	,743	,725	,636
	t-stat		5,48	4,29	3,65	3,54	2,94
State age	coeff			,019	,007	,007	,007
	t-stat			6,39	1,99	2,05	2,10
LN GNP 1998	coeff				1,052	,981	,756
	t-stat				5,58	4,76	2,76
Parliamentarism	coeff					,154	,107
	t-stat					,86	,58
Perceived corr.	coeff						-,143
	t-stat						-1,25
Constant	coeff	7,430	6,049	4,455	-3,046	-2,726	,145
	t-stat	29,02	17,99	11,88	-2,20	-1,90	,05
Adj rsq		,00	,23	,47	,60	,60	,604
N		93	93	93	93	93	93

Note: See Appendix 1.

Table 5 reports the findings from the test of the partial effect of federalism upon democracy as outlined in model 6. Model 6 stands for: $DEM = \beta_1 \text{ federalism} + \beta_2 \text{ ombudsman} + \beta_3 \text{ state age} + \beta_4 \text{ affluence} + \beta_5 \text{ parliamentarism} + \beta_6 \text{ corruption}$, and it is estimated for each of the alternative classifications of federalism. What we find from Table 5 is that the negative impact of federalism is impact, and does not seem to be an effect of choice of indicator measuring federalism.

Table 5. Impact of federalism on democracy: different parameter estimates using various measures of federalism

	FEDFOR	BWD99	DD99	DD89	WATTS99	WATTS96	ELAZA95	ELAZA91
r (N=156)	,195	,163	,127	,165	,195	,191	,166	,146
r (N=93)	-,009	,023	-,056	-,021	-,009	-,009	,003	-,021
Beta	-,151	-,161	-,174	-,155	-,151	-,151	-,186	-,155
B-coeff	-,794	-,925	-,907	-,868	-,794	-,794	-1,020	-,868
t-stat	-2,22	-2,33	-2,61	-2,62	-2,22	-2,22	-2,72	-2,26

Note: See Appendix 1.

Looking at this surface relationship between federalism and democracy one cannot conclude that there is a true causal relationship. The federal countries share other institutions and conditions which may be more effective in impacting upon democracy. The main finding is actually that federalism constitutes a negative for democratic longevity, when partial effects are examined.

CONCLUSION

Federalization has been recommended as a strategy to enhance institutional performance. Federalism is often seen as a basic dimension in constitutional democracy, promoting democratic vitality. And future state building may be done on the basis of unions taking on the characteristics of federations. However, there is the puzzle of federalism: If federal institutions are supposed to improve upon outcomes, then why is the actual performance record of many federal countries so meagre?

We suggest that democratic stability is fostered by other institutions and factors than federalism. The evidence from regression analysis suggests an entirely new answer, namely that federalism constitutes a negative for democracy.

Appendix 1. Variables, Indicators and Sources

Abbreviation	Description	Sources
AFFLUENCE	Natural logarithm of GDP per capita in US \$ expressed as purchasing power parities	World Bank 2000
BWD99	Federalism as a dummy variable where 1= federalism and 0 = non-federalism	Encyclopædia Britannica 2000
CORRUPTION	Rescaled perceived corruption index which means that high scores stand for high levels of perceived corruption and low scores for low levels of perceived corruption	Transparency International
DD89	Federalism as a dummy variable where 1= federalism and 0 = non-federalism	Derbyshire and Derbyshire 1989
DD99	Federalism as a dummy variable where 1= federalism and 0 = non-federalism	Derbyshire and Derbyshire 1999
DEMOCRACY	The democracy scores is based on the Freedom House scores where a low degree of democracy scores 1 and a high degree of democracy scores 10.	Freedom House 2002
ELAZA91	Federalism as a dummy variable where 1= federalism and 0 = non-federalism	Elazar 1991
ELAZA95	Federalism as a dummy variable where 1= federalism and 0 = non-federalism	Elazar 1995
FEDFOR	Federalism as a dummy variable where 1= federalism and 0 = non-federalism	Forum of Federations 2003
OMBUDSMAN	Occurrence of the Ombudsman institution as a trichotomous variable where 2 = early institutionalisation, 1 = later institutionalisation, and 0 = no institutionalisation	International Ombudsman Office 1999
PARLIAMENTARISM	Parliamentarism scores as 2 = parliamentarism, 1 = semi-presidentialism, 0 = presidentialism	Derbyshire and Derbyshire 1999
STATE AGE	Number of years since the introduction of modernized leadership	Based on Black 1966
WATTS96	Federalism as a dummy variable where 1= federalism and 0 = non-federalism	Watts 1996
WATTS99	Federalism as a dummy variable where 1= federalism and 0 = non-federalism	Watts 1999

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