

**Fiscal Federalism in Multinational States: Autonomy, Equality and Diversity**

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## **Introduction: Sub-state Nationalism and Fiscal Relations in Plurinational States**

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Nationalism, especially sub-state nationalism, is often considered without reference to concurrent claims about fiscal autonomy and interregional redistribution. The study of multinational federalism as a tool for the accommodation of sub-state nationalism also often ignores issues related to territorial redistribution and the allocation of fiscal powers to collect tax revenues and engage in public spending. More broadly, theories of social or distributive justice often presuppose that redistribution occurs within a unitary state. When theories of distributive justice question this assumption, it is usually to highlight cosmopolitan duties regarding redistribution above and beyond the state. On the other hand, fiscal federalism as a topic in economics and public finance is concerned with the allocation of fiscal responsibilities to different orders or levels of government, some of which can be federated states and federal governments. The study of fiscal federalism is broader than that of public finances in federations, and is concerned generally with the “vertical structure of the public sector” and the efficient allocation of resources across all kinds of governments, including those that do not have constitutionally defined and protected competences, such as the administrative regions of unitary states (Oates 1999, 1120; see also Bird and Chen 1998). Yet, even within federations, the study of fiscal federalism tends to remain disconnected from the issues raised by sub-state nationalism, and mostly concerned with uniform notions of equity and efficiency, used to determine the optimal allocation of financial resources to different orders of government. The chapters in this book seek to remedy this lack of connection between scholarly discussions on sub-state nationalism, multinational federalism, distributive justice and the allocation of fiscal resources to different orders of government.

Earlier versions of these chapters were presented first at the international conference “Fiscal Federalism in Plurinational Societies: Autonomy and Equality”, held at the Université du Québec à Montréal on June 8-9, 2017. This conference was an interdisciplinary occasion to consider the topics of minority nationalism, multinational federalism, fiscal federalism and interregional redistribution from the point of view of both normative contemporary political philosophy and political science. The general perspective was comparative, with a focus on cases of sub-state nationalism and plurinational federalism (including Catalonia and Spain, Flanders and Belgium, Quebec, Indigenous peoples and Canada, Scotland and the United Kingdom, and Western Australia and Australia). The aim of this collaboration was to bring together scholars of nationalism, federalism, and redistributive politics, to think about the often-neglected connections between fiscal questions and nationalist claims within plurinational states. Multinational federalism and fiscal federalism have each received their fair share of scholarly attention albeit too often disjointedly and in separate discussions.<sup>1</sup>

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<sup>1</sup> There are, of course, several notable exceptions to this trend. See for instance Béland and Lecours 2006, 2008; McEwen 2006b; Noël 2009; Grégoire and Jewkes 2015; Valdesalici and Palermo 2018.

### **Minority Nationalism: Fiscal and Redistributive Claims**

Plurinational states contain more than one national group, more than one society that defines itself as a nation or as a people. Unlike ethnocultural minorities resulting from immigration, sub-state nations do not seek to be integrated into a larger single political community; they rather view themselves as distinct political communities whose members share a desire to control their destiny together and act collectively as a political entity (Taylor 1993, 75-76; Kymlicka 1995, 11-26). Sub-state nations, or minority nations, understand themselves as peoples entitled to self-government, and they struggle to obtain recognition and consolidate self-government. Minority nations seek to remain distinct from majority nations, whose identity is projected by the central state (Keating 1996; Keating and McGarry, 2001; Gagnon, Lecours and Nootens, 2011). Scholarly debates about politics in multinational states and about the best ways to accommodate sub-state nationalism often revolve around cultural recognition and political self-government. These debates raise questions about the extent sub-state nations are or should be officially recognized by the central government, their capacity to exercise self-government and to express an international personality, their representation in central governments and constitutional courts, and the recognition and use of their language in the school system, in political institutions, and in the workplace (see for instance, Kymlicka 2001, Gagnon and Tully 2001, Requejo 2004, Keating 2001).

In both the disciplines of political philosophy and political science, the study of multinational democratic states has produced an abundant literature in the last 30 years (Taylor 1993; Keating 1996, 2001; Keating and McGarry, 2001; Gagnon and Tully 2001; Kymlicka 2001; Requejo 2004; Harty and Murphy 2005; Norman 2006; Burgess and Pinder 2007; Gagnon and Iacovino 2007; Fossum, Poirier and Magnette 2009; Gagnon, Lecours and Nootens, 2011; De Schutter 2011; Seymour and Gagnon 2012; Gagnon 2014; Patten 2014; Malloy and Palermo 2015; Keating and Laforest 2018). This body of literature tends to view multinational federalism, or at least devolution, as the most promising regime to accommodate plurinational diversity.

Broadly speaking, federalism is generally understood as “a normative term [that] refers to the advocacy of multi-tiered government combining elements of shared rule and regional self-rule” (Watts 1999, 6). Federations are thus political regimes in which “neither the federal nor the constituent units of government are constitutionally subordinated to the other, i.e. each has sovereign powers derived from the constitution rather than another level of government, each is empowered to deal directly with its citizens in the exercise of its legislative, executive and taxing powers and each is directly elected by its citizens” (*Ibid.*, 7). It is important to stress that federations are not equivalent to political systems based on administrative decentralization in which the central state delegates administrative powers over some areas of competency to regional subunits but retains the legislative authority in those areas as well as the right to revoke these administrative powers. In a federation, sovereignty is divided between different orders of government and this division of power is not merely *de facto* but rather *de jure* in the sense that it is constitutionally protected and results from a formal pact (Noël 2020).

A common distinction is made between ‘territorial’ and ‘multinational federations’ (Resnick 1994, 71). Only the second type of federations is explicitly designed to accommodate

national minorities. Territorial federations, by contrast, are designed to diffuse the power within a single national community and do not draw the boundaries of their regional subunits with the aim of enabling minorities to exercise self-government (the United States and Germany, for instance, are territorial federations). Multinational federations aim at securing a capacity of self-government to internal nations by 1) drawing boundaries so that national minorities can form a majority within one or more federal subunits, thus enabling them to make democratic collective decisions without being outvoted by the national majority; and 2) dividing the powers so that a 'nationality-based subunit' can have exclusive or shared jurisdiction over crucial areas such as culture, language, immigration, education and so on (Kymlicka 2001, 95; see also Gagnon and Tully 2001; Keating 2002). We might add that a truly multinational federation formally recognizes its national minorities as such in the constitution and treat all its internal nations as equal partners.

The literature on multinational federalism has been mostly focused on the cultural, political, and constitutional aspects of the accommodation of sub-state nationalism. Less attention has been paid to fiscal decentralization and interregional redistribution. Yet, both issues raise important questions of ethnocultural justice and are significant sources of tensions between majority and sub-state nations.

Fiscal autonomy and the decentralization of fiscal resources are often at the heart of the demands of minority nations and a recurrent source of tensions between sub-national groups in plurinational states. They have two aspects: tax and revenue autonomy and budgetary, or spending, autonomy. Both issues generate minority nationalist claims. Belgium, for instance, allocates important legislative powers and forms of recognition to the Walloons and Flemish in the realm of education, culture, and language, but it has maintained a mostly centralized welfare system (see Lecours' chapter). In this context, the decentralization of the healthcare system has been a major political issue in several recent elections and in the constitutional crises of 2007 and 2010. Indeed, many Flemish nationalists argue that since Walloons consume greater levels of healthcare, Flemish people are subsidizing the expensive habits of French-speaking Belgians due to the centralized scheme for healthcare funding and spending. A fiscally decentralized healthcare system, they argue, would be fairer as it would better track the preferences and habits of each sub-state nation (see Van Parijs 2004; Béland and Lecours 2006, 2008).

In Canada, since the early 2000s, Quebec's nationalist movement has mobilized to contest vertical fiscal imbalance and the so-called "spending power" of the federal government. Vertical fiscal imbalance happens when there is a mismatch between the spending responsibilities and the capacity to raise revenue of different orders of government, in general when the central government's capacity to raise revenue exceeds what it needs given its legislative responsibilities. The Canadian government has long claimed to have a right to engage in public spending in areas that are under the jurisdictional competence of the provinces. This "spending power," which is not specified in the constitution, has always been perceived as a threat to self-government by Quebecers, and as a tool of nation-building in the hands of the Anglo-Canadian majority nation (Telford, 2003, Gagnon and Iacovino 2007, Courchesne 2007, Noël 2008, 2009). A Quebec commission of inquiry recommended in 2002 to solve this problem by eliminating conditional intergovernmental transfers and giving more fiscal resources to the provinces (Commission on Fiscal Imbalance, 2002).

Canada's Indigenous peoples have also been struggling to obtain more fiscal autonomy in order to secure their political capacity. In 1983, the Penner Report on Indigenous self-government in Canada already highlighted that federal transfers were used to control indigenous governments and that the lack of independent revenues inhibited the self-government of Indigenous communities (Penner 1983). As Jennifer Wallner and Peter Russell explain in their chapters, although recent changes seem to pave the way for empowerment, Indigenous communities in Canada have for long seen their political autonomy seriously undermined by the dependence on federal transfers, intrusive conditionality provisions and few opportunities to participate in the elaboration and transformation of fiscal arrangements in the Canadian federation.

In Scotland, the idea that independence would give a better control to the Scottish people over its own economy and that the Scottish contributed more tax per head than the rest of the United Kingdom was central in the Scottish Nationalist Party rationale for independence prior to the 2014 referendum (Scottish Government 2013). Many alternatives to full independence discussed during the years prior to the referendum contained proposals for fiscal decentralization and were aimed at satisfying a desire for more fiscal autonomy : the devo-max or full fiscal autonomy option would have left Scotland with all or most of the taxation and spending powers and in this scenario, Holyrood would have made upwards vertical transfers to Westminster to cover non-decentralized services such as national defense and foreign policy whereas the devo-plus or enhanced fiscal autonomy option would have provided a weaker fiscal decentralization in which London and Edinburgh would have shared taxing and spending responsibilities (Cairney and McGarvey 2013: 240-242).

In the case of Catalonia, some commentators have claimed that the secessionist movement was fueled less by economic factors than by discontent about the revocation of the 2006 Statute of Autonomy by the Spanish Constitutional Court in 2010 (Cuadras-Morató and Rodon 2017). Both the discourse of the secessionist movement and the timing of the events concord with this interpretation. Yet, the Statute of Autonomy contained provisions for more fiscal autonomy that were also judged unconstitutional by the Spanish Constitutional Court (Requejo and Sanjaume 2015). In addition, as we explain below, Catalonia's discontent with the rest of Spain is reinforced by the view that it loses from interregional redistribution (see Mathieu and Guénette's chapter in this volume).

Indeed, and this is the second dimension of the fiscal question, several multinational federations or quasi-federations are sharply divided as to the principles and practices that should govern inter-regional redistribution, as well as they disagree on the amounts of intergovernmental transfers. In plurinational federations, territorial redistribution, that is redistribution aimed at equalizing socio-economic conditions in the different sub-units, is the source of recurrent political tensions between sub-state national groups. In Spain, for instance, the articles 138 (1) and 158 (2) of the constitution affirm a principle of solidarity that aims to "establish a fair and adequate economic balance between the different areas of the Spanish territory" through the creation of a compensation fund to reduce economic imbalances between regions. Since the late 2000s, Catalan nationalists have complained that the application of the principle of interregional solidarity is excessive and produces "over-equalization". In 2010, for example, Catalonia ranked third in terms of per capita financial resources among the fifteen

communities participating in the common financing system, but ended up eleventh after interregional equalization (Castells 2014; Gray 2014). This situation fueled the perception that the Spanish fiscal system was unjust and that Catalonia would be better-off out of Spain.

In Canada, the tensions play differently as the Quebec minority nation does benefit from equalization payments. Section 36 (2) of the Canadian *Constitution Act* asserts that the government of Canada is committed to “making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation”. As Quebec has been a net beneficiary of equalization payments since they began in 1957, many Anglo-Canadians in provinces that do not benefit from the equalization scheme (Alberta, for instance) complain that such payments are a mere political tool to accommodate Quebec and appease Quebec’s secessionist aspirations, even though other provinces receive far more equalization payments on a per capita basis (Béland and Lecours 2014). Moreover, since Quebec has more generous social programs and higher social spending than the other provinces, many view equalization payments as a subsidy for Quebecers’ social preferences (see for instance Milke 2013). In Quebec, however, citizens tend to consider equalization as a mere corrective for other inequities in the federation.

Issues related to the allocation of fiscal responsibilities and to interregional redistribution are common to all federations, but they are particularly sensitive in plurinational states. Yet, as noted, fiscal questions seem to occupy less space in the study of plurinational federalism than typically political questions related to identity, language or constitutional recognition. This situation is mirrored in the sub-fields of political philosophy and political science dedicated to the study of distributive and social justice. In this literature, distribution and redistribution, whether they are approached from an egalitarian, libertarian, Marxian or utilitarian perspective, tend to be studied in the context of an imagined unitary national state (Rawls 1971; Nozick 1974; Sen 1985; Arneson 1989; Roemer 1996; Anderson 1999; Dworkin 2000; Vallentyne and Steiner 2000; Cohen 2008; Tomasi 2012). The connection between redistribution and the context of a unitary national state has been seriously questioned in the last three decades, but mostly from a global perspective, in works on world politics, cosmopolitanism, and international distributive justice (Beitz, 1979; Held 1995; Rawls, 1999; Tan 2004; Caney 2005; Pogge 2008; Moellendorf 2009; Valentini 2011; Nine 2012). Few works explore distributive justice within multinational states with a decentralized or resolutely federal character. Recent works have begun to challenge this limitation of theories of distributive justice by looking *below* or *within* the plurinational state. One important strand of literature focuses on distributive justice within the quasi-federal and state-like multinational European Union (Sangiovanni 2013; Woons 2014; Van Parijs 2019; Kollar, 2020). Another strand, deals with distributive justice within political entities that are undoubtedly adequately and currently called states and, more precisely, federal states containing several national groups (Føllesdal 2001; Van Parijs 2004; Segall 2007; Boucher and Maclure 2015; Shorten 2015; Van Parijs 2015, Fatauros 2018). This volume belongs to this literature and challenges the understanding of theories of distributive justice within the boundaries of unitary and mononational state. The chapters of this book question the assumption of a simple and unambiguous connection between redistribution and the unitary national state by exploring the redistributive issues that are unique to multinational states, particularly those that have adopted a federal or quasi-federal regime to accommodate plurinational diversity. They do not question

the existing theoretical frameworks of redistribution by looking at supranational dimensions, above the state one could say; they challenge the conventional view by looking within, at redistribution and fiscal relations between orders of government in complex and multilayered states that contain more than one national groups.

Before going forward, one should acknowledge that fiscal autonomy and interregional redistribution have not been neglected in the literature on federalism, on the contrary. Economists and political scientists, in particular, have produced an important body of theoretical and comparative literature on the notion of fiscal federalism (Buchanan 1950; Musgrave 1959; Oates 1972, 1999, 2008; Bird 1980, 1986; Mignolet 2005; Rodden 2006; Ahmad and Brosio 2008; Boadway and Shah 2009). Fiscal federalism refers to the vertical allocation of financial resources and fiscal responsibilities among orders of government. Commentators, however, have pointed out that the literature on fiscal federalism tends to be ‘afederal’ (Bird and Chen 1998; Oates 1999; see Graefe in this book). Several economists approach the assignment of tax and spending responsibilities as something entirely malleable and contingent on equity and efficiency. According to Graefe, to be truly ‘federalist’, fiscal federalism must treat the division of taxing and spending responsibilities as being constitutionally protected and justified, at least in part, by the goal of promoting the balance of self-rule and shared-rule characteristic of federalism. If the central government is seen as a benevolent planner assigning fiscal responsibilities and constantly changing assigned responsibilities according to its conception of what maximizes citizen utility, we are simply dealing with a unitary decentralized state, not with a genuine (fiscal) federation. Consistent with this understanding of federalism as a combination of self-rule and shared-rule, we will here treat fiscal federalism as being concerned with intergovernmental financial relations in states where revenue raising capacities (taxation) and public spending responsibilities (expenditures) are divided between different orders of government according to some formal or constitutional rule, or, at least, to a relatively stable political *modus vivendi*.

The literature on fiscal federalism has much to say about the principles behind the allocation of tax revenues to different orders of government and on the pros and cons of redistribution within a federation. Yet, existing accounts of fiscal federalism tend to assume the mononational character of federations and rarely consider the implications of accommodating minority nations within plurinational states. They are rather focused on issues of public economics such as determining the optimal governmental level for the provision of a given public good, asking to which extent fiscal decentralization can stimulate innovation and healthy interregional competition and how to allocate fiscal responsibilities for spending and collecting revenues so as to avoid vertical fiscal imbalance. One could thus make the argument that accounts of fiscal federalism tend to speak of territorial fiscal federalism more than of multinational fiscal federalism.

In brief, whereas theories of multinational federations have paid little attention to fiscal issues, theories of fiscal federalism have largely ignored the plurinational dimension of federalism. We want to establish bridges between these fields, hoping to shed some light and offer guidance to better understand and accommodate the claims of minority nationalist movements in contemporary plurinational states. That being said, the chapters of this volume do not build from scratch as some political scientists and philosophers have already done



important architectural work and started to build the pillars for these bridges. Some political scientists have noted the lack of attention given to the material dimension of minority nationalism (as opposed to its identity or cultural dimension) and have highlighted the importance of collective economic interests for nationalist mobilization supporting claims of self-government in plurinational societies, and they have also argued that sub-state nationalism affects the structure of the welfare state in plurinational societies (see for instance Béland and Lecours 2006; 2008; 2010; McEwen 2006a; Gagnon and Iacovino 2007; Singh, 2015). Other studies have asked whether decentralization aimed at accommodating minority nations has a negative impact on the welfare state (see for instance McEwen 2006b; Béland and Lecours 2010; Banting and McEwen 2018). Scholars have also examined how interregional redistribution in plurinational state can trigger nationalist political mobilization (Béland *et als.* 2017; Béland and Lecours 2006; 2008; 2014; Castells 2014) and how vertical fiscal imbalance and the assertion of the power of central government to spend on social programs can threaten internal minority nations (Telford 2003; Iacovino 2007; Noël 2008). Political scientists have examined to what extent fiscal decentralization encourages secession (Sorens 2016; Rode, Pitlik and Borella Mas 2017) and political philosophers have asked to what extent seceding political units have obligations of distributive justice towards one another (Catala 2017). Finally, some political philosophers have tried to adapt principles of distributive justice to the context of plurinational federations (Føllestal 2001; Boucher and Maclure 2015; Van Parijs 2015, Shorten 2015; Fatauros 2018) and have debated the fairness of health-care decentralization in plurinational contexts (Van Parijs 2004; Segal 2007). The essays in this volume follow in the footsteps of this literature and aim at enriching our understanding of fiscal relations and social justice within plurinational states. By focusing on the connection between sub-state nationalism and fiscal questions, we do not want to suggest that material and fiscal claims are more fundamental than identity or cultural claims, nor that there is a recent shift towards reframing minority nationalism in fiscal and distributive terms. Our goal is to contribute to the interdisciplinary field of study of multinational federalism by focusing on a specific set of overlooked, but not fully unnoticed, set of questions at the juncture of nationalism, federalism, finances and distributive justice.

### **Theoretical Framework: Tax Autonomy, Budgetary Autonomy and Federal Transfers in Multinational Federations**

Our main goal is to connect minority nationalism, plurinational federalism and fiscal federalism. The chapters in this book revolve around three broad topics that define fiscal federalism within plurinational states (Noël 2020, 100-101). The first concerns the division of taxation powers, the so-called ‘tax assignment problem’, and, more broadly speaking the division of responsibilities to raise all kinds of revenues (including personal income taxes, sales taxes, tariffs, fees, taxes on property income, and so on).<sup>2</sup> The main question here is to know which order of government is or should be responsible for collecting revenues and deciding how much and how revenues are obtained (by determining taxation rates, for instance). Countries vary in the extent to which sub-state governments collect revenues autonomously,

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<sup>2</sup> For a taxonomy of tax autonomy and taxation powers, see Blöchliger and Nettley 2015.

that is, by taxing directly citizens and corporations rather than merely receiving funds from the federal government. As shown in Table 1, there is considerable variation among federations and quasi-federations when we consider the share of total public revenues that federated states raise independently.

**Table 1 Share of revenues raised autonomously by subnational governments in OECD federations or quasi-federations, 2014 (in percentage of total public revenues)<sup>3</sup>**

Country	Subnational government share
Canada	39,1
<b>Switzerland</b>	24,7
Germany	22,6
United States	19,7
Australia	16,6
Spain	13,6
Italy	10,6
<b>Belgium</b>	5,3
<b>Mexico</b>	4,7
<b>Austria</b>	1,6

Even in the most fiscally decentralized states (Canada, Switzerland, Germany and the United States), where subnational governments enjoy a relatively high degree of tax and revenue collection autonomy, subnational governments rely as well on federal transfers, subsidies and tax sharing arrangements, that is, on revenues not collected autonomously but collected by federal agencies at rates set by central governments. In some plurinational federations (or quasi federations), such as Belgium, Mexico and Spain, subnational governments have a limited autonomous role to play in the collection of public revenues. That being said, Table 1 also hides important asymmetries. In Spain, for instance, the Basque Country and the Navarre autonomous communities enjoy a substantially greater level of tax autonomy than other Spanish autonomous communities.

Several contributions in this book look at existing levels of tax and revenue autonomy in plurinational states such as Canada (Wallner, Russell), Spain (Guénette and Mathieu), the United Kingdom (Rioux), and Belgium. They also explore the multiple ways in which minority nations have challenged these existing arrangements (Lecours). This book, however, is the result of an interdisciplinary collaboration between political scientists and political philosophers. We view this as a bidirectional collaboration in which, in general, the empirical outlook of political science both informs and is shaped by the normative and critical outlook of

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<sup>3</sup> Source : Dougherty, Harding et Reschovsky 2019: 15-18.

political philosophy. While certain chapters more or less evenly balance the empirical, critical and normative perspectives on tax autonomy (Wallner, Guénette and Mathieu), others focus on the moral justification or critique of tax and revenue autonomy (Boucher, De Schutter, Graeffe, Erasti Lopez). All contributions share a broad multiculturalist sympathy for plurinational diversity and explore the extent to which the core moral and political values of plurinational federalism and democracy require securing different degrees of tax autonomy for national minorities.

In general, sub-state nationalist arguments claim that any form of meaningful political autonomy for federated units must be accompanied by a corresponding degree of tax and revenue autonomy (Wheare 1963). When federated states depend on federal grants and transfers (which are often conditional) to perform the functions under their own jurisdiction, they are at the mercy of federal decisions. When federated states have spending responsibilities that exceed their revenues and the federal government has revenues that exceeds its spending responsibilities, we are faced with a fiscal imbalance empowering the federal government and disempowering federated states (Noël 2009). On the other hand, critics of tax autonomy often fear that it can lead to horizontal tax competition and to a race to the bottom adversely affecting total public revenues.<sup>4</sup> Moreover, proponents of a fiscal imbalance advantaging the federal government often point that such an imbalance is necessary to enable the federal government to redistribute financial resources between federated units so as to promote equality throughout the federation (Anderson 2010). Finding the appropriate balance between autonomy and equality is thus the main desiderata of a theory of fiscal federalism in plurinational states.

The second topic concerns autonomy and equality in relation with public spending and social policy. Minority nations usually do not simply seek to raise revenues independently. They also want to use their revenues to enact policies giving expressions to their own social and political values and understanding (Béland and Lecours 2008). In addition, they take an active role in developing their own economies and supporting their own businesses and industries (Rioux 2020). For many minority nations, recognition is not simply a matter of being able to speak a distinct language and to protect a unique culture. Minority nations aspire to be self-determining and they often view self-determination as including the capacity to develop their economy and to pursue their own political agenda in realms that are not confined within narrowly defined understandings of culture and identity. This suggests that meaningful autonomy also entails a significant level of budget autonomy and that the federated units of a genuine plurinational federation must be able to make autonomous decisions regarding social spending and economic development. In recent years, increased decentralization in several plurinational states have raised concerns about the undesirable impact of the decentralization of the welfare on inequality across regions. When minority nations have been able to use their autonomy to set up new social programmes and to posit themselves as the guardians of social rights in an era of neoliberalism and austerity, this process has contributed to the redrawing of the boundaries of social solidarity (Banting and McEwen 2018). Once again, however, there is significant variation in the shares of total public spending of subnational governments in the OECD federations and quasi-federations, as we can see from Table 2.

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<sup>4</sup> See Blöchliger and Pinero-Campos 2011 for a critical discussion.

**Table 2 Share of public spending of subnational governments and municipalities in OECD federations or quasi-federations, 2016 (in percentage of public spending)<sup>5</sup>**

<b>Countries</b>	<b>Share of subnational government</b>
<b>Canada</b>	76,2
<b>Switzerland</b>	61,4
<b>Mexico</b>	51,9
<b>Belgium</b>	49,8
<b>Spain</b>	49,2
<b>United States</b>	48,4
<b>Germany</b>	48,1
<b>Australia</b>	46,3
<b>Austria</b>	46,3
<b>Italy</b>	28,9

Highlighting the centrality of budgetary autonomy for minority nationalism, Rioux (in this book) compares Quebec and Scotland's struggles to secure fiscal autonomy and their respective efforts to support their own businesses and industries. In addition to this quest for autonomous economic development, some minority nations struggle to implement their distinctive conception of the welfare state. Quebec, for instance, has put in place a social state that is comparatively more egalitarian than what is found in other Canadian provinces (Noël, 2013 and 2018). Yet, in certain plurinational states, such as Belgium, social policy is still largely under the jurisdiction of the federal state. Normative and critical discussions about the capacity of national minorities to set up their own social programmes tend to reflect those variations among existing plurinational states. On the one hand, those who support a strong centralization of spending responsibilities point to the inequalities introduced by decentralized social programs. They worry that those living in different subunits do not have access to the same (levels of) public services and fear that the wealthiest regions will be able to secure greater benefits for their residents (Segall 2007). De Schutter, in his contribution to this volume, thus defends a vision of multinational federalism based on cultural recognition within a strongly centralized social state. Critics of such centralization argue that the capacity to develop social programmes autonomously is a key component of national minorities' self-determination and an important tool of nation-building (Harty and Murphy 2005, 43-45). Boucher (in this book) develops this

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<sup>5</sup> OECD 2018, 115.

argument and takes issue with the view that social programs should be centralized in plurinational states.

The third topic of interest concerns intergovernmental transfers as a source of (un)fairness and as a potential mechanism of (dis)empowerment for substate national minorities. Everywhere, the federated governments share of spending responsibilities exceeds their share of revenues. As a consequence, these governments rely significantly on federal transfers. As said, this is not intrinsically unjust or problematic. Federal transfers can indeed play an important role in redistributing resources between subunits. Assessing the legitimacy of such transfers requires paying attention to their purpose and mode of operation. Transfers, for instance, can be unconditional; this is the case when they come with no strings attached and can be spent as receiving units see fit. This is the case with equalization payments in Canada. Such transfers are more compatible with regional autonomy than conditional transfers that come with strings attached. Such conditional transfers are tied to spending obligations in certain areas of policy and must meet certain criteria that reflect policy goals set by the federal government. On the other hand, conditionality can be used to ensure minimally shared standards across the federation. Scrutinizing the operating modes of various fiscal arrangements in Canada, Wallner explains in her chapter that conditionality, strict monitoring and oversight mechanisms, combined with weak democratic participation, significantly undermine the extent to which federal transfers to Indigenous governments have the potential to empower them.

Another critical perspective on federal transfers focuses not so much on their compatibility with autonomy but on their alleged egalitarian character. One important critique claims that equalization transfers reward or compensate careless subnational governments for bad economic policies and lavish social spending (Milke 2013). This objection is rooted in a conception of distributive equality asserting that people should be compensated for disadvantages resulting from unchosen circumstances, but not for disadvantages resulting from their choices (Cohen 1989; Dworkin 2000). Transposed to debates about international redistribution, this view claims that global redistribution should not equalize the shares of states that have less efficient development policies or social preferences for more leisure (Rawls 1999, 117-118). Just like individuals, states and governments must take responsibility for their choices. In the context of plurinational federations, this sort of concern is raised when, for instance, one claims that the Canadian equalization programme unfairly penalizes the fiscally conservative and oil producing province of Alberta, and helps Quebec to maintain more generous social programmes and greener development policies (see Boucher and Maclure 2015 for a rebuttal).

Another egalitarian concern focuses on the precise aims of equalization transfers. For instance, the amount and extent of such transfers will vary depending on whether they try to equalize fiscal capacities or compensate regions with greater expenditure needs, where 'fiscal capacity' refers to the resources that a government could collect by applying a given taxation rate and where 'expenditure needs' refers to the cost of providing a given service in a jurisdiction (Boucher and Maclure 2015, 181-182). Paying attention to the potential outcomes of equalization transfers Mathieu and Guénette (in this book) attempt to list guiding principles for plurinational federations. For instance, they warn against situations in which transfers change the ranking of subunits when comparing pre- and post-transfers revenue. They highlight

that in addition to being potentially unfair, those situations may trigger resentment exacerbated by ethnocultural cleavages. In many states, this kind of resentment can nurture secessionist claims. For instance, Albertan secessionists are to a certain extent motivated by the perception that they systematically subsidize the Quebec social model because of the equalization programme. In his chapter, Lecours shows how inter-territorial forms of redistribution that are seen as unfair and disadvantageous has fueled various secessionist movements and how federal transfers not perceived as inimical can, by contrast, foster unity in plurinational and federal polities. Erasti Lopez in his chapter takes a normative stance on this issue and discusses whether grievances regarding the unfairness of interregional redistribution can ever justify secession.

When we combine these three topics, it is possible to envision three fiscal regimes for plurinational federations (see Boucher and Maclure 2015, 165-173). These are, of course, Weberian ideal-types to which existing states never fully correspond. Yet, they can help us mapping existing states as well as normative theories. A first model combines cultural accommodation with a centralized social state. Cultural autonomy within a unitary welfare states provides equal recognition to national minorities by protecting their language, cultural practices and symbols. Yet, it assigns most fiscal and redistributive competences to the federal state in order to secure distributive equality for all citizens. In such a regime, for instance, healthcare institutions deliver services in minority languages, but are funded through federation-wide taxation and operate according to policy goals set by the federal government. This model is based on the view that although it would be wrong if members of one national group were unable to receive services in their own language, it would also be wrong if they had access to less social protection. In a sense, this is plurinational federalism without fiscal federalism. Belgium approaches this model and De Schutter provides a defense of it in this volume.

A second model maximizes autonomy by assigning all or most fiscal responsibilities and redistributive functions to federated units. In this model of full fiscal autonomy, subnational governments are responsible for most social spending and enjoy maximal tax autonomy. They make upwards vertical transfers to enable the central government to perform a short list of functions that can hardly be allocated elsewhere (national defense, for instance). Asymmetrical regimes sometimes grant something akin to full-fiscal autonomy to one or a few regions, as is the case with the Basque Country and Navarre in Spain and with South Tyrol in Italy. Full fiscal autonomy for Scotland was discussed as a potential alternative to secession in the debates preceding the Scottish referendum of 2014. Føllesdal (2001) has developed a conception of distributive justice in federations that shares many features of full-fiscal autonomy. In this view, federated subunits have maximal tax and budgetary autonomy, they pursue their own internal social policies, and redistribution between federated states do not aim at equalization but merely at avoiding that one of the federated partners accumulate so much wealth that it can dominate other partners and hinder their autonomy (see also Fatauros 2018).

Finally, the third model can be labelled multinational fiscal federalism. It follows, in the fiscal realm, the combination of self and shared rule characteristic of federalism. In terms of self-rule, in addition to securing cultural autonomy and recognition (language rights, control over education, symbolic recognition, etc.), this model grants a high degree of budgetary autonomy to national minorities and enables them to set up their own social programmes and

development policies. With regard to shared-rule, this model also recognizes the role of the federal government in promoting distributive equality across the federation. This entails that despite strong fiscal decentralization, the federal government retains some fiscal tools. The federal government may, for instance, attempt to promote common minimal standards with conditional transfers; establish some social programmes and set up unconditional transfers aimed at promoting interregional equality. This entails that some tax room is left for the federal government and that federated units do not entirely occupy the social policy space. This type of plurinational fiscal federalism is approximated by Canada and found a principled defence in Boucher and Maclure (2015). It starts to fade away when the federal becomes the main provider of social services and/or when the bulk of federal transfers are conditional in a strong sense (when conditions do not leave much wiggle room and are combined with tight enforcement and oversight procedures).

### **The Chapters of this Book**

The chapters of this book pursue two distinct but interrelated lines of investigation. First, they ask questions concerning the first two topics discussed in the previous section, the two dimensions of fiscal autonomy, tax and budgetary autonomy. This first area of inquiry asks to what extent, in a plurinational state, should each level of government be responsible for taxing citizens and for public spending. Is it desirable for plurinational societies to have a centralized welfare state and a centralized taxation system? Is it better for such societies to adopt a decentralized fiscal structure? Are existing plurinational states more or less decentralized than mononational states? From the point of view of social justice and of theories of recognition, how should tax powers be allocated in multinational societies? Is there a necessary connection between self-determination and fiscal autonomy? Does multinational federalism raise distinct issues of distributive justice, issues or problems that do not arise in unitary states and territorial federations? How to conceptualize the spending power? What should be the limits of this power? How are the political demands of minority nations (Quebec, Scotland, Catalonia, Flanders, South Tyrol, etc.) related to fiscal claims? What political strategies have been adopted by minority nations to achieve greater fiscal autonomy? To what extent have fiscal questions sparked mobilization of sub-state nationalist movements?

Second, the different chapters propose empirical and normative enquiries regarding the politics of territorial redistribution and interregional equalization. They look at intergovernmental transfers aimed at redistributing wealth between different sub-state political and territorial units. What principles should guide interregional redistribution and intergovernmental transfers in multinational federations? Do interregional redistribution and intergovernmental equalization transfers undermine fiscal autonomy and self-determination? How do economic inequalities and power relations influence intergovernmental relations in multinational societies that have adopted a federal or quasi-federal system? What forms do intergovernmental transfers take in different multinational federations or quasi-federations? How are issues of interregional redistribution responding to the secessionist demands of minority nations? What political tensions are generated by disagreements over fiscal autonomy and interregional equalization transfers?

Part I addresses secessionist claims by national minorities in connection with fiscal and redistributive demands. In the first chapter, André Lecours takes a comparative perspective and highlights that even though minority nationalism is often associated with identity claims, contemporary nationalist movements seeking secession often mobilize around issues of material national interests, including demands for fiscal decentralization and better territorial redistribution. To document this connection, his chapter examines the fiscal and redistributive claims of five modern secessionist movements, in Catalonia, Flanders, Scotland, Quebec and Western Australia. Based on this comparison, Lecours concludes that secessionist nationalist movements do indeed mobilize around fiscal and redistributive claims, especially when they can depict existing fiscal arrangements as disadvantageous to their minority nation. Lecours notes, however, that, equalization schemes benefiting minority nations can weaken the appeal of secessionist claims, especially when secessionist movements have not already consolidated a national identity based on non-material interests.

In the following chapter, Ander Errasti Lopez takes a normative perspective on minority nationalism and secession and asks whether claims about fiscal redistribution can justify secession, from a moral cosmopolitan standpoint. Fiscal distribution arguments for secession, argues Errasti Lopez, can be considered valid if they do not question the scope of redistribution and agree to respect some distributive duties following secession. These arguments, however, raise morally delicate questions, and are best avoided, in favour of more substantial arguments about long-standing cultural, linguistic or political grievances. Raising secessionist claims, the author notes, is never arbitrary, and implies a very mobilized civil society around some collective endeavour as well as a strong will of assuming some costs regarding that endeavour. The core question, therefore, is not fiscal but political and democratic.

Part II deals with fiscal relations and relations of power within multinational federations by exploring the Canadian case. Peter Graefe argue that, at least in a multinational context, the principle of autonomy must be given a strong and substantial meaning. Too often, he explains, the study of fiscal federalism has narrowed the question of tax allocation to an issue of non-centralization, whereby having enough own source revenues is necessary for each order of government to remain autonomous. In a plurinational federation, however, autonomy must also entail a capacity to make choices “without undue central constraint or normalization.” Canada, observes Graefe, has often fallen short in this respect, even though provinces maintain important revenues of their own, because the central government used various instruments to impose general norms and conditions. Quebec’s constant pressure for autonomy, however, has acted as a limit to this tendency, possibly making the federation durable in the end.

Jennifer Wallner examines fiscal relations and power by documenting how fiscal arrangements in the Canadian federation favour (or undermine) the empowerment of sub-state minority groups. She finds that the representation and participation of national minorities in intergovernmental discussions on fiscal questions, access to independent revenues, and favourable conditions and time horizons associated with federal grants can all contribute to realize and enhance the autonomy of minority nations. In this respect, Quebec appears in a better situation than Indigenous nations. After her detailed analysis of the fiscal arrangements at work with regard to Quebec and Indigenous peoples, she concludes by arguing that fiscal arrangements can disempower minority nations when the latter do not participate to the



elaboration of such arrangements, have no secured independent revenue base and when conditionality and accountability mechanisms are too burdensome.

Part III explores the notion of fiscal autonomy in plurinational states. François Boucher notes that fiscal arrangements are often neglected in normative theories of multinational federalism. He argues that the moral and political commitments grounding theories of multinational federalism invite us to take into account the connection between recognition and redistribution. Indeed, equal recognition through federal arrangements designed to provide cultural autonomy to minority nations necessarily entails a degree of fiscal autonomy. Full fiscal autonomy for sub-state governments would raise serious egalitarian concerns, but a proper sharing of fiscal resources between orders of government can reduce the tensions between autonomy and distributive equality.

Autonomy, however, is not only a question of federal rules and practices, but also an outcome of minority nations agency. In his chapter, Xavier Hubert Rioux takes an empirical perspective and traces the rise of Scotland's fiscal autonomy in the last twenty years, comparing this evolution to that of Quebec during the Quiet Revolution. He finds that Scotland truly undertook a Quiet Revolution of its own, quadrupling its own source revenues and building a distinct and ambitious economic development model. Despite the negative results of the 2014 referendum on secession, Scotland's national autonomy remains strong, and it is likely to an important factor in the context of the post-Brexit United Kingdom.

Part IV addresses the role of the federal government in promoting distributive equality across multinational federations. In their chapter, Félix Mathieu and Dave Guénette take a normative stance to advance that plurinational federations should both be engaged in interregional equalization and provide minority nations with a significant degree of fiscal autonomy. Both equalization and fiscal decentralization are required if the partners of a plurinational federation are to be equal in status and non-dominated. By comparing the impact of Spanish and Canadian fiscal arrangements on Catalonia and Quebec, they refine their conception of federal equality within plurinational states and claim that an egalitarian model of fiscal federalism must respect three conditions: it must provide sub-state units with a minimal level of resources, limit paradoxes of revenues, and refrain from making wealthier sub-state units poorer than the average.

In his chapter, Helder De Schutter also tackles the tension between the imperatives of autonomy and redistribution, but he supports a different conception of egalitarian federalism. De Schutter starts from the idea that if a federalist would value autonomy and an egalitarian would favour redistribution, one may ask how would an egalitarian federalist conciliate the two objectives, when for instance autonomy entails more resources to a wealthier sub-unit? Deploying two principles, the Policymaker Pays Principle and the Highest Level Solidarity Principle, De Schutter argues that the best solution combines central revenue provision and central policymaking over distributive justice. For him, the egalitarian principle trumps federalism, but he also acknowledges the need, in practice, for federal accommodations.

Finally, in a concluding chapter, Peter Russell concurs with his own synthesis on the Canadian experience. This country, he contends, was built on incomplete conquests and had to compose with three distinct national pillars, Aboriginal Canada, French Canada and English-speaking Canada. Long tempted by a politics of assimilation, the majority nation gradually came to accept, more or less completely, the multinational character of the country. Fiscal

federalism became part of the process, as the sharing of powers was necessarily tied to that of financial resources, an objective easier to achieve for a large province like Quebec than for small indigenous nations.

Altogether, this book does not reach authoritative conclusions on the principles and practices guiding fiscal federalism in plurinational federations. Our aim is more modest, and consists in throwing light on two issues too often studied and discussed separately. Students of fiscal federalism should take into account the complexities inherent to multinational federations, just as scholars of plurinational federations should pay attention to fiscal issues. When we do, we find complex questions of principles, related to autonomy, recognition, efficiency, redistribution and equality, and instructive national experiments showing how in practice these principles can be accommodated. There is no simple response, no one best way, on such matters: principles matter, but so does the arduous and always challenging politics of accommodation.

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