

**COMPETITIVE FEDERALISM**  
**AND**  
**INCIPIENT GLOBALIZATION**

**Albert Breton**  
Department of Economics  
University of Toronto

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## 1. Introduction

Karl Marx and Frederick Engels (1848) first and George Stigler (1971) later argued that, whatever the form of government, there is a general tendency for corporate interests (in marxist theory, called the bourgeoisie) to capture the apparatus of state and to use it in the pursuit of its own interest.<sup>1</sup> As emphasized by Richard Posner (1974), the model of capture on which Marx and Engels relied is different from that used by Stigler, but, however that may be, it is a fact that the end result is more or less the same: special interests (bourgeois or corporate) override those of the citizenry. The rent-seeking literature, though generally less specific than Marx and Engels and Stigler on the *dramatis personae* involved, nevertheless offers a view of collective action in which the citizenry's interests are shanghaied by special interests.

These models are based on the assumption, generally not made explicitly, that governments and governmental systems are monopolies.<sup>2</sup> Specifically, on the assumption that there is no competition between the many centers of power that make up modern governments, between the multitudes of governments that make up governmental systems, and between governments and the host of social institutions that are actual or potential suppliers of many goods and services that are close substitutes for those provided by governments. There is so much by way of beliefs and ideologies that rests on the assumption of monopoly government – more or less as the assumption of "monopoly capitalism" was essential to much of the cultural and 'scientific' *zeitgeist* of the 1930's and 40's – that we should expect the assumption of monopoly government to have a slow death.

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<sup>1</sup> Marx and Engels (1848) put their view succinctly as follows: "The executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie."

<sup>2</sup> The rent-seeking model needs more than the assumption of monopoly government to be validly applicable. It needs, in addition, to assume that the creation of rents is *not* the by-product or the consequence of the pursuit by the creators of rents of socially desirable objectives. For example, if advertising by a business enterprise creates rents, as it will when it is effective, but also conveys socially useful information, it would be incorrect to say that the business enterprise is seeking rents. These are a by-product of the diffusion of information. Similarly, if a government introduces

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Though it seems to be often forgotten, globalization is a phenomenon that is specific to particular realities. There is, for example, economic globalization, cultural globalization, technological globalization, terrorist globalization, human rights globalization, and so on. To qualify as a *bona fide* reality deserving of attention, it is essential that each particular globalization be associated with a specific tractable mechanism.<sup>3</sup> In this paper, I am concerned with economic globalization, indeed with one aspect only of that globalization, and with some of its possible consequences.<sup>4</sup>

The current economic globalization<sup>5</sup> is still an incipient phenomenon. As a consequence, efforts to trace its effects are subject to considerable uncertainty and are conditioned by the emergence of events (incidents) which appear to be related to globalization but may turn out not to be, and by the recognition that other events, which had hitherto been perceived as unrelated to globalization, are in effect very much associated with it.

I take it as generally accepted that economic globalization is a consequence of the operation of the three following factors: a) the elimination of all (or virtually all) restrictions on the free movement of capital made possible by the removal of quantitative and non-quantitative barriers to trade; b) the emergent harmonization and standardization of the rules that govern trade, investment, employment, property rights, environmental policies, and so on; and c) as a consequence of (b), that is, as a consequence of the adoption of common standardized rules regarding investments – rules that tend to reflect the practices prevailing in the dominant economies of the world, in

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a family allowance program as a *politique de natalité*, it will create rents, but these will be incidental to the program. On this aspect of the rent-seeking model, see Posner (1975).

<sup>3</sup> The distinction between globalizations is not a denial that there are interconnections between the different sorts of globalizations. Still, each is a different reality and must be analysed as such.

<sup>4</sup> Economic globalization has many dimensions. For discussions of some of these, see Bowles (2000), Feenstra (1998), Helliwell (2000), Krugman and Venables (1995), Lazear (1999), Obstfeld (1998), and Williamson (1998), as well as the literature referenced in these papers.

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particular, in the United States – the elimination of impediments to the private ownership of physical assets.<sup>6</sup>

There are at least two consequences of economic globalization that are important for the hypothesis that will be advanced in this paper. One of these, pertaining to the mobility of corporate capital, has received considerable attention in the literature; the other, related to the performance of governments has not been addressed. The first derives from the fact that with free trade in goods and services, investment in fixed capital can be located anywhere within the free-trade area. Decisions regarding the location of capital assets are governed by all the factors that help determine the rate of return on capital including the severity and the degree of decisiveness in implementing regulations regarding the environment and the labour force, the level of taxation, the provision of an industrial infrastructure which should be seen as encompassing those amenities that are of interest to middle and higher level managers in business corporations – concert and opera houses, convention centres, museums, theatres, etc. – and that allow corporations to pay lower salaries to these managers than they would in the absence of these amenities, and so on. This means that large business corporations are able to play one government against another in matters related to the variables I have just noted. It is therefore not an accident that we observe a downward drift in corporate tax rates, a less vigorous implementation of environmental laws, a reduction in job security, and a stagnation of average real wage rates.<sup>7</sup>

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<sup>5</sup> That capitalism has seen economic globalization before is generally accepted (see Williamson, 1998).

<sup>6</sup> It seems reasonable to suppose that if the processes related to economic globalization were not so completely dominated by the business culture of corporate America, it would be more readily accepted by groups that are critical of that culture both in the United States and in other countries around the world.

<sup>7</sup> Empirical studies (for example Obstfeld, 1998) show that modern day developed economies are not, in fact, more open than were economies a hundred years ago. There will continue to be debates regarding the meaning of such findings. From the point of view of the hypothesis suggested in this paper, it is because it is known that capital is mobile that it can threaten to exit a jurisdiction, obtain, via that threat, what it wants from governments, and then possibly abstain from moving. (A century ago, the threat would have been weak or non-existent as governments

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The *modi operandi* of these interactions are largely unknown and are begging to be modelled. We are able to observe a closeness between politicians and public sector bureaucrats on the one hand and corporate elites on the other so great that the former, as by osmosis, have adopted the objectives of the latter as if they were obviously appropriate welfare-enhancing policies. For example, in matters such as genetic modification, global warming, the use of hormones and antibiotics to raise the productivity of animals as foodstuffs, and many others, on which there is great uncertainty as to ultimate consequences, politicians and bureaucrats seem to share the view of corporate business that the only way to go is full speed ahead. The only serious political problem is to devise strategies capable of misleading and eventually hoodwinking a reluctant – even unwilling – electorate to accept the objectives of corporate capital.

## 2. Globalization and Governments

I now turn my attention to governments and governmental systems and suggest a hypothesis about the effects of globalization on the efficiency of these institutions. I adopt a precise notion of efficiency in regards to these bodies. In a very important paper entitled "A New Principle of Just Taxation", Knut Wicksell (1896) demonstrated that if decisions regarding taxation and decisions regarding expenditures were made simultaneously and (quasi-) unanimously, the outcome would be Pareto optimal and first-best. (Wicksell did not use that language, but that is the burden of his argument).

Wicksell and all those who were fascinated with this result were convinced that simultaneity and unanimity were not to be found in real world governments. Some of these people toyed with new

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provided very little in the way of goods and services). Measures of capital flows may reveal an absence of mobility, even though threatened mobility is, in fact, the dominant force underlying what is going on.

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designs of government. Others, like James Buchanan and Gordon Tullock (1962), and Geoffrey Brennan and Buchanan (1980) sought to derive constitutional rules that would be such that "in-period" decisions – decisions governed by the constitutional rules that had been determined "out-of-period" – would approximate the outcome of simultaneity and unanimity. In my *Competitive Governments* (1996), I sought to demonstrate that competition will drive the centres of power that constitute modern compound democratic governments to simultaneity and unanimity and therefore to efficiency. To put it differently, I argued that competition drives governmental centres of power to build what I called "wicksellian connections" between taxation and expenditure decisions so that taxprices paid by citizens are forced into equality with the (marginal) value placed by these citizens on the goods and services they are provided with. Wicksellian connections can be tight or loose depending on whether the quantity (and quality) supplied of a particular good or service exactly or only imprecisely matches the quantity (and quality) desired at the taxprice that has to be paid. In the presence of perfect competition and with information readily available, wicksellian connections will tend to be tight. When competition is imperfect and information is lacking, the connections will be loose.

Competition does this because every centre of power inside a particular government, every government that is part of a governmental system, and every institution in society that provides goods and services which are substitutes for the goods and services supplied by governments seek the consent of people.<sup>8</sup> The assumption that these competing bodies in seeking to maximize expected consent generate wicksellian connections is analogous to the assumption that business

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<sup>8</sup> For a defence of that assumption, see Breton (1996, 48-57). See also the literature on probabilistic voting in, for example, Calvert (1986).

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enterprises that seek to maximize profits not only produce at minimum unit cost, but produce the goods and services that consuming households want.

The intuition behind the idea that the search for maximum expected consent on the part of competing bodies builds wicksellian connections and generates efficiency is simple enough. Citizens grant more of their consent to the bodies that do best for them. The intuition is most apparent when applied to the problem of the long-term growth of governments in western societies. It then says that relative to other social institutions, governments became increasingly more efficient – better at dealing with problems such as free-riding – and as a consequence were granted the consent of citizens to provide pensions, unemployment insurance, day care, hospital and health services, as well as the host of other services that had hitherto been provided by families, churches, religious orders, and many other voluntary eleemosynary organizations. Citizens, in other words, withdrew their consent from families, churches, etc. as providers of "welfare" services and granted that consent to governments. Obviously, the transfer of consent is meaningful only if governments are competing with families, churches, and other "private" suppliers of welfare services.

There are individuals – though, it seems to me, fewer than hitherto – who have trouble with the idea that families, churches, religious orders, eleemosynary bodies, and governmental centres of power compete with each other. Let me look at judiciaries and ask how the views of their members have been and are changing on questions such as divorce, birth control, abortion, homosexuality, marriage, child abuse, sexual harassment, and the host of other subjects that are at the forefront of social concerns at the onset of this new millenium. Why do members of that branch of government change their minds? Is it because they keep abreast of debates and developments in ethics, deontology, and moral philosophy? Possibly, but I think it more likely that they do so because they

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do not want to lose the consent of the people.<sup>9</sup> How do members of judiciary systems ascertain that consent? That is a difficult question to answer because expected consent – the objective function that is being maximized – is a mixture of public opinion (measured through polls and appraised through contacts and connections), of outlook and ideology, and of the maximizers' capacity to influence beliefs and preferences. But in the end, we must acknowledge that the organs of judicial branches, like all other centres of power that make up compound governments, have constituencies and fight for their consent.

It has to be recognized, however, that the world is full of imperfections, notorious among them is the high cost of information in respect of matters central to one's capacity to compete. As a consequence, wicksellian connections will seldom be completely tight. Outcomes that are less efficient than the most efficient possible will be the rule. That is true of markets also. In coming to a view on this matter, we are dealing to some degree with an empirical question. But to an important degree, we are also dealing with a question of conceptualization. Paul Baran and Paul Sweezy could see nothing but monopolies and collusions in the same economy in which Milton Friedman and George Stigler saw virtually nothing but competition.

Though still only incipient, economic globalization is sufficiently present to produce observable results. In respect of governments and governmental systems, globalization's main consequence is to undermine wicksellian connections. It does this in the following way. Because the capital of large corporations is mobile, corporations can threaten to leave a jurisdiction unless the public services it demands are provided by the government of that jurisdiction at taxprices lower than the marginal cost of production and delivery. That by itself undermines wicksellian connections. But

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<sup>9</sup> The idea that judiciaries are concerned with "legitimacy" – consent in my language – and therefore with public opinion is forcefully made in Sullivan (1998, p. 16).

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that is only the first step. If we assume, as we must, a given constant budget constraint, the necessity to provide goods and services to corporate capital at taxprices that are not high enough to cover the jurisdiction's unit costs of production and delivery implies that goods and services will be provided to the citizenry in general at taxprices that are higher than unit costs. That finishes the job of undermining wicksellian connections.

The foregoing can be given a more analytical twist. An increase in the degree of economic globalization increases the market power of business corporations because globalization increases the mobility of capital. As a result, a government that chooses to attract capital or decides to hold onto capital already in its jurisdiction will accept to provide goods and services demanded by corporate interests at lower taxprices and/or in greater quantity and quality than at the ruling initial taxprices. The greater mobility of capital, in other words, will have made corporations into more effective oligopsonists in their purchases of governmentally supplied goods and services and, as a consequence, corporations will benefit from larger oligopsonistic rents – rents that will inflict a deadweight cost on society that is additional to the value of the increased rents captured by the corporations. The "transfer" to oligopsonists means that citizens have to pay more for the goods and services provided them by governments, given no change in the governments' budget constraint. The quantity of publicly supplied goods and services demanded by citizens will therefore decline. Citizens will search for alternative suppliers. The proposition that globalization undermines wicksellian connections therefore means that in the new equilibrium, corporate interests benefit from larger oligopsonistic rents while the citizenry at large wants fewer governmentally provided goods and services. The increment in globalization will then have been accompanied by a transfer of supply from public to "private" institutions. In the process, globalization changes the distribution of political power in society in favour of corporate capital against the institutions that have

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responsibility for the general welfare of the citizenry.<sup>10</sup> The special treatment of some groups in society – in this case corporate interests – which, in the Economics of Politics or Public Choice literature, has been ascribed to capture or to rent-seeking, is here imputed to globalization.

I want to stress that the replacement of public by private sources of supply is a response to what the citizens want – at least in the short run. To put it differently, the transfer of the administration and operation of jails, hospitals, homes for adolescents, for old-age persons, and for the mentally disabled as well as some universities to corporate interests which is at present being tried on a larger and larger scale is, I submit, a reflection of the fact that in comparative terms the efficiency of governments is being eroded. As globalization proceeds, pressure will grow to transfer the administration and operation to corporate businesses of such policy domains as national defence, environmental protection, national parks, and possibly even justice and international diplomacy. If my analysis is at all close to the underlying dynamics, that will happen whether citizens elect governments known, for fifty years at least, as progressive or conservative. One could identify the erosion of wicksellian connections and the weakened capacity of governments to compete as a negative externalities of economic globalization.

### **3. Dynamic Instability**

The phenomenon I consider in this section is often discussed under the heading of "race to the bottom".<sup>11</sup> It is generally agreed that the expression is inappropriate (for example Wilson, 1996, Oates, 1999) but, for one reason or another, it continues to be widely used. This consecration notwithstanding, I will refer to what I perceive to be a reality in search of an explanation as

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<sup>10</sup> This change in the distribution of power is correlated with, but is different from, the change in the distribution of income and wealth brought about by globalization.

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*dynamic instability*.<sup>12</sup> The main problem with the race to the bottom expression is that it conveys the impression of displacements that never set in motion countervailing forces or, to use Kelvin Lancaster's (1974, p. 287) term, "restoring forces" that prevent collapse and can even bring whatever factor has been displaced back to its initial equilibrium or to some other equilibrium position far away from the bottom. Anthony Scott (2000) has, correctly in my view, noted that the phenomenon is, at the theoretical level at least, the same as the "beggar-thy-neighbor" tariff policies that were so widely implemented between the first and the second world wars. He could also have mentioned the competitive exchange rate devaluations that were prevalent during the same period. Scott, as does Wallace Oates (1999), mentions the literature on the setting of property taxes which appear to have responded to the same sort of forces.

A number of scholars believe that races to the bottom are not *de facto* empirically important (see Oates and Schwab, 1988; Wilson, 1996; Oates, 1998, 1999; and Scott, 2000). I believe, to the contrary, that the presumption must be that the phenomenon, even if not ubiquitous, exists. Indeed, tariff wars (Kindleberger, 1986), competitive exchange devaluations (Nurkse, 1944), and destructive tax competition (Break, 1967; Rowell-Sirois Royal Commission on Dominion-Provincial Relations in Canada, 1940<sup>13</sup>) during the 1930's did take place. I think it significant, in addition, that in the post-World War II era, we have not had serious tariff wars – some skirmishes but no wars – and no sustained competitive devaluations of currencies. This, I suggest, is not an accident. Indeed, a large literature (see, for example, Keohane, 1984; Kindleberger, 1986) attributes the relative stability of the post-war era in these areas to the existence of international bodies such

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<sup>11</sup> This is the expression used by William Carey (1974) who first systematically discussed the phenomenon.

<sup>12</sup> In Breton (1996), I called the phenomenon a race to the bottom!

<sup>13</sup> The origin of Canada's Equalization Payments system is to be found in that Report which diagnosed some instability in intergovernmental relations in Canada during the great depression and proposed the equalization grants, administered by the federal government, as a remedy for that instability.

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as the GATT (now the WTO) and the IMF. I concur with the conclusions of that literature. The absence of tariff wars and of competitive devaluations point to dynamic instabilities that have been mastered.<sup>14</sup>

The loosening of wicksellian connections that globalization begets affects not only central governments. Indeed, we should expect the wicksellian connections in all governments and public agencies – provincial, regional, municipal, and so on – to be adversely affected. However, they will not, in general, be equally affected. This is due to the fact that there is considerable variation in the goods and services that different provincial and municipal governments can provide to business corporations, as well as variation in the oligopsonistic corporate demand for publicly supplied output by different provincial and municipal governments.

One implication of the above is that the ability of some governments to compete against other governments will be more severely impaired than that of others. These more severely injured governments will unload on the private sector more of the goods and services they were hitherto providing. But they will also unload functions onto governments located at different jurisdictional tiers. When functions are unloaded onto the market, those who acquire them benefit from a stream of revenue either from the sale of the goods and services they now supply, and/or from subsidies from the governments that have unloaded the functions on them. However, when governments unload functions on other governments, they do not, at the same time, usually disburden themselves of the revenues they collect and have used hitherto to finance the provision of the goods and services included in the unloaded functions. The consequence of these unloadings is dynamic

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<sup>14</sup> What is referred to as *Pax Americana* was certainly the product, as the expression implies, of American foreign policy.

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instability. Why? Simply because it warps the mechanisms that are at the origin of, and that regulate, intergovernmental competition.

That competition, in federal as well as in other decentralized governmental systems, is organized along two different lines – horizontally and vertically. The first of these two manifestations of competition has received considerable attention in the literature, the second virtually none. The mechanism that is presumed to generate horizontal competition – competition among governments inhabiting the same jurisdictional level – was, for a long time, attributed to interjurisdictional mobility alone. That conception of mobility was derived from Charles Tiebout's (1956) paper which had put forward a preference revelation mechanism for a world of pure local public goods. Tiebout's model had only one level of government – the local or community level – with all other public functions assigned to an inactive central government, so inactive that in much of the literature it was simply forgotten. Whether the Tiebout mechanism has any power is still very much an open question. However, even if there was enough interjurisdictional mobility to generate horizontal competition, that mobility could not undergird vertical competition, given that every citizen is necessarily housed in all jurisdictional tiers at once.

But we are not without a substitute. A decade and a half ago, Pierre Salmon (1987) applied the theory of labour tournaments, initially proposed by Edward Lazear and Sherwin Rosen (1981), to horizontal intergovernmental competition arguing, in effect, that if the citizens of a jurisdiction evaluate the performance of their government by comparing it to the performance of governments elsewhere but at the same jurisdictional tier, they would induce their own government to do as well or better than these other governments and in the process would prompt their governing politicians to compete with opposition politicians and with governments elsewhere in the system. One virtue

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of what we may call the Salmon mechanism, in addition to the fact that it is a complement to the Tiebout mobility mechanism if and whenever that last mechanism is operative, is that it will also motivate vertical competition whenever citizens use the performance of governments located at other jurisdictional tiers as benchmarks to evaluate what their own government at a different jurisdictional tier is doing.

The initial formulation of the Salmon mechanism assumed that citizens compared the performance of their own government to that of a benchmark government in terms of the "levels and qualities of services, of levels of taxes or of more general economic and social indicators" (Salmon, 1987, 32). However, as noted earlier, competition in governmental systems compels all centers of power to forge wicksellian connections so as to be granted the consent (vote) of citizens. In the light of this result, I suggest that citizens evaluate the relative performance of governments in terms of the tightness of wicksellian connections – both for horizontal and vertical competition.

Why is it an improvement to articulate the Salmon mechanism on wicksellian connections rather than on the vector of goods, services, taxes, and other indicators on which the mechanism has hitherto been expressed? The virtue of a Salmon mechanism expressed in terms of wicksellian connections is that a given citizen can carry out comparisons of performance in terms of a common standardized variable, whether the benchmark government inhabits the same or a different jurisdictional level from that in which the citizen dwells. A variable that serves that purpose well is the size of the utility losses inflicted on citizens whenever the volume of goods and services provided by centers of power differs from the volume desired at given taxprices. Put differently, citizens experience the same kind of utility losses from decisions made by governments whatever the jurisdictional tier the governments inhabit. The goods and services supplied can differ, but the

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efforts to achieve tightness in wicksellian connections will not.<sup>15</sup> Indeed, the ability to compare performance horizontally is likely to reinforce the ability to execute vertical comparisons and *vice versa*.

I note at this point that, under different guises, the Salmon mechanism has been empirically documented. Following the path-breaking exercise of Timothy Besley and Anne Case (1995), we now have studies by John Ashworth and Bruno Heyndels (1997), by Thiess Büttner (2001), and by Christoph Schaltegger and Dominique Küttel (2002). The mechanism is empirically robust.

Though fundamentally different, the Salmon and Tiebout mechanisms have one feature in common: they both require that citizens can compare the performance of two or more governments. In the first case, the comparisons motivate competition among centres of power within the jurisdiction in which the citizens performing the comparison reside; in the second case, the comparisons motivate mobility from one community to another and the mobility generates competition. But in both instances, citizens must engage in comparisons.

The weakening of wicksellian connections that globalization begets distorts the very basis of the comparisons that citizens must perform if the Salmon and Tiebout mechanisms are to engender efficient and beneficial competition. To illustrate this proposition, I consider two examples. Suppose that a government unloads the management of jails and the distribution of welfare to private agencies. At the same time, it must transfer resources to these agencies on the basis of some agreed upon formula as neither prisoners nor welfare recipients are able to pay for the services they are provided with.<sup>16</sup> The consequence is the removal of these functions from centres of power that

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<sup>15</sup> As in the tournament model suggested by Nalebuff and Stiglitz (1983), the comparison of performance will be more precise if the random disturbances affecting performance are common to all centres of power instead of being idiosyncratic to each.

<sup>16</sup> Because it is likely to be insignificant, I disregard the value of the services delivered by the by the prisoners in chain-linked gangs that now adorn the shoulders of expressways in a number of American states.

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had hitherto been competing with other centres of power in the governmental structure. The mechanism that insured strong wicksellian connections will therefore have been impaired or possibly destroyed. The same is true when one government at a given jurisdictional tier unloads functions unto governments at another without a matching transfer of resources or when grants from one government to others are unilaterally terminated.

These unloadings of functions to the private sector or to governments at other levels in the hierarchy of decentralized governmental systems in effect removes those who inherit the functions from any circle or orbit of competition. This in reality is what breaks the wicksellian connections. To see this more clearly, consider the privatization of an airline that had hitherto been publicly owned. That privatization is not likely to remove the newly privatized airline from an orbit of competition as there are, in all likelihood, other airlines with which it will have to compete. No wicksellian connection is broken and the privatization will usually be efficient and beneficial.

#### **4. A Proposal for Reform**

Globalization and the undermining of the comparative efficiency of governments I have outlined above will go on for many more years. The institutions that were recognized over recent decades as basic to the stability of the world order – the institutions analysed in the literature on hegemony and regimes (see Keohane, 1984, for a good discussion) – do not appear capable of dealing with the problems created by globalization. I have argued in *Competitive Governments* that hegemons (the only extant hegemon is America) and regimes cannot create wicksellian connections and therefore cannot increase the (absolute or relative) efficiency of governments. As a consequence, we should expect that the comparative weakening of governments and governmental systems that is already apparent will continue for quite some time. An enormous amount of control over the lives of most

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of us – of all those not in the corporate sphere of influence – will continue to be transferred to ever larger corporate interests.

The negative consequences of globalization that I have just noted must be set against the increases in real wealth that globalization of economies undeniably creates.<sup>17</sup> There is no need, however, to live with the social and human problems which globalization generates. One way of dealing with the negative second-order consequences of economic globalization is to globalize political life – to construct world parliamentary institutions.<sup>18</sup> These must be designed in such a way as to be able to generate wicksellian connections. They therefore must be democratic and, for obvious reasons, they must also be federal. I will be brief about what I mean by democracy, having devoted much space to the subject in my *Competitive Governments*. Democracy calls for popular elections. For a world parliament, that means first that representatives must be elected by the people of the world. It is difficult, of course, to imagine that dictatorships such as China and Cuba would allow elections of representatives to a world body when elections are not permitted in their own countries. That is one of the reasons why the creation of a world parliamentary system will emerge slowly, assuming that one day there is a will to create one. The second requirement of a democratic order – as important as the first – is the construction in that world body of a set of checks and balances. In practice, this will remain a very difficult task to carry out; and once a decision to proceed has been made, decades will be needed to implement the decision.

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<sup>17</sup> Throughout, I have been concerned exclusively with the globalization of economic life. Associated with that globalization, we are also witnesses to a globalization of culture. To the extent that this last globalization is consequent on that of the economy and to the extent that the globalization of culture is in effect the spread of a mass culture that corrodes "higher" culture, one would have to subtract something from the wealth created by economic globalization.

<sup>18</sup> The conventional expression is "world government". The term has a long and convoluted history and has been associated with all sorts of constructions. For this reason I have decided to make use of the expression 'world parliamentary institutions'. The expression refers to parliamentary and not to "congressional" institutions. That is intentional. What is currently happening in the United States is proof that, at times, all checks and balances vanish in congressional systems. That is seldom, if ever, the case in parliamentary systems, as the unfolding of events in the United Kingdom powerfully reveals.

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In addition, the new world parliamentary body would have to be a new jurisdictional tier of a federal structure. We know from the 1787 debates in Philadelphia and the events which preceded and informed these debates, that to be a genuine federal jurisdictional level of government, it is essential that the government or governments of that tier have an autonomous entrenched power to tax. The world parliamentary system must therefore have the capacity and ability to collect some or all of its revenues. Otherwise the world body would be confederal, not federal. We have enough knowledge of confederations to know that they cannot create wicksellian connections.

At this stage, it does appear as if world parliamentary institutions are not on the horizon. In the shorter term, to deal with the problem I have been concerned with in this paper, I suggest that the most appropriate solution would be the creation of a World Revenue Organization (WRO) – a body not unlike the WTO – that would guarantee that the dynamic instability inherent in the intergovernmental competition over corporate tax rates be eliminated. The WRO would have to invent instruments – proscribing, for example, the participation of tax havens from all international bodies – that would quarantine these countries, small and large, and prevent the sheltering of corporate revenues from taxation. That body would also have to take the initiative to create "tax agreements" among governments that would prevent dynamic instability while allowing some competition to take place. And so on and so forth.

## **5. Conclusion**

In this paper I have argued that globalization undermines the ability of intergovernmental competition to forge tight wicksellian connections between quantities and qualities of goods and services supplied by governmental centres of power and the taxprices they charge to pay for them. The reason for this anomaly is that corporate interests by playing one government against another

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are able to behave as oligopsonistic buyers and pay taxprices below their marginal cost for goods and services supplied them by governments. To insure that budgets are balanced, governments must then reduce the quantity and/or quality of the goods and services they provide to the citizenry at large.

This is not a process that spells the end of governments, but it can create a degree of dynamic instability – something akin to what has hitherto often been called a race to the bottom. Until that dynamic phenomenon is modeled, it is difficult to predict what it might engender. The experience of the world community in dealing with global dynamic instability by creating institutions to deal with it is an indication that we need not live with it. I have proposed the creation of a world body that would act to forestall that sort of instability.

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