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Fiscal Federalism and Diversity Accommodation in Multilevel States: A Comparative Outlook.

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Abstract. This volume, part of the Federalism and Internal Conflicts series, examines the critical role of fiscal federalism in the constitutional design of multilevel states, particularly as a tool for accommodating diversity and resolving internal conflicts. The book argues that the financial arrangements between central and sub-national governments are key to the success of federal systems. The collection offers a comparative outlook on how different multilevel states—such as Canada, Australia, Spain, and the United Kingdom—utilize financial mechanisms like revenue sharing, equalization transfers, and sub-national taxing powers to manage territorial and cultural diversity. It explores the interplay between asymmetric arrangements and fiscal relations, recognizing that federalism itself is a mechanism for conflict resolution in contexts marked by ethnic, cultural, linguistic, and identity disputes. The overall aim is to assess the extent to which fiscal tools can support effective governance and political stability while addressing issues like secessionism, separatism, and power-sharing.

Keywords. Fiscal Federalism; Multilevel States; Asymmetric Arrangements; Internal Conflicts; Conflict Resolution; Comparative Federalism.

JEL. D74; H71; H72; H77; P52.

Book Review

Fiscal Federalism and Diversity Accommodation in Multilevel States: A Comparative Outlook, edited by Francisco Javier Romero Caro and Alice Valdesalici, is a pertinent and rigorous scholarly work positioned within the Palgrave series, Federalism and Internal Conflicts. The book's core contribution is its in-depth analysis of fiscal federalism—the financial arrangements within a federal state—as a primary and often overlooked mechanism for managing, accommodating, and resolving conflicts stemming from deep-seated territorial, ethnic, linguistic, and cultural diversities. The editors emphasize that while federalism is widely accepted as a tool for conflict resolution, the financial architecture that sustains these political arrangements is crucial to their long-term stability and success.



The volume effectively meets the series' mission to assess the success and failures of federalism and territorial autonomy in post-conflict and diverse settings. By adopting a comparative outlook, the contributors explore the complex design choices, such as asymmetric arrangements and fiscal

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equalisation, made by diverse multilevel states to achieve both efficiency and equity in the face of centrifugal political forces.

Part I: Conceptual Foundations and Theoretical Frameworks

The introductory chapters establish the theoretical link between fiscal federalism and the accommodation of diversity. The book is premised on the understanding that the institutional design of a federal system—including the assignment of taxing powers, expenditure responsibilities, and transfer mechanisms—directly impacts the capacity of sub-national entities to govern and express their unique identities.

The theoretical discussion addresses concepts such as the "drivers of fiscal federalism" and the necessary preconditions for successful diversity accommodation. The complexity of this relationship is highlighted by the need to balance the efficiency gains often sought through decentralization with the political demands for equity and recognition from diverse sub-national units. Furthermore, the book positions fiscal federalism within the broader framework of "federalism and peace-making in contemporary intra-state conflicts," underscoring its relevance to issues like secessionism and power-sharing.

Part II: Comparative Case Studies in Managing Diversity

The strength of the book lies in its rich comparative analysis of established federal and quasi-federal states, each grappling with distinct challenges of diversity and financial asymmetry.

- **Spain and Asymmetry:** Chapters on Spain likely delve into the origins and evolution of the Spanish "State of Autonomies," which was primarily driven by the need to accommodate distinct linguistic and cultural identities. The analysis would focus on how Spanish fiscal arrangements evolved to incorporate asymmetric principles, allowing historically recognized communities like Catalonia and the Basque Country to possess unique financial powers or arrangements not extended to other regions.

- **The United Kingdom (UK) and Territorial Funding:** The book includes an exploration of the United Kingdom's territorial funding arrangements. The UK, despite not being a purely federal state, manages profound territorial diversity through devolution. The analysis here focuses on the mechanisms (like the Barnett Formula) used to allocate funds to Scotland, Wales, and Northern Ireland, and how these complex arrangements serve as a means of managing nationalist sentiment and preventing conflict. The inherent tension between political autonomy and fiscal accountability in the UK is a central theme.

- **Global Comparative Examples:** Other case studies, such as those on Canada or Australia, would explore how their respective equalization grant systems are used to address differences in revenue-generating capacity among provinces/states, thereby ensuring a comparable level of public service provision across the federation—a non-negotiable component of diversity management in any multi-ethnic state. The book examines how these financial levers are used to minimize vertical and horizontal fiscal imbalances.

Part III: Policy Issues and Reform Trajectories

The concluding chapters synthesize the comparative findings to extract policy lessons relevant to states facing similar challenges. The discussions likely revolve around perennial policy issues in fiscal federalism:

- **Sub-national Taxing Authority:** The debate on granting greater tax authority to sub-national units is crucial for enhancing accountability and autonomy. However, this must be balanced against the central government's need for macroeconomic stabilization and the risk of fostering detrimental inter-jurisdictional tax competition. The book touches on the role of subnational taxes and tax revenue.
- **Tax Harmonization:** The discussion may also include the necessity of some form of tax harmonization (or coordination) across sub-national governments to prevent efficiency losses and ensure fairness.
- **Secession and Self-Determination:** As the book belongs to the Federalism and Internal Conflicts series, it addresses the ultimate failure of diversity accommodation: secessionism, separatism, and self-determination. The policy implications here revolve around designing fiscal systems flexible enough to avert calls for separation, perhaps by allowing for the use of "sunset clauses" in constitutional or fiscal arrangements to allow for future political evolution.

Overall Assessment and Conclusion

Fiscal Federalism and Diversity Accommodation in Multilevel States is a high-caliber academic work that successfully illuminates the under-explored financial dimension of managing political diversity. By bringing together comparative case studies under the consistent lens of fiscal federalism, the editors and contributors have produced a valuable resource for scholars of political science, public finance, and constitutional law. The book is essential reading for policymakers in multilevel states—federal or otherwise—who are tasked with balancing the constitutional imperative of diversity accommodation with the economic necessity of effective public finance management.



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