Legislative Bargaining and Decentralization: Evidence for 15 OECD Parliamentary Democracies*

Francesc Amat

University of Oxford (Nuffield College) and Juan March Institute

Albert Falcó-Gimeno

Universitat Pompeu Fabra and Juan March Institute

July 2, 2010

In this paper we investigate how particular configurations of the legislative affect the likelihood of a decentralization reform in Parliamentary democracies. We contend that the distribution of political power between central and regional authorities is an endogenous institution subject to political bargaining among the disciplined political parties that seat in the legislative. For that purpose we construct an index of the saliency of the decentralization dimension that reflects the distribution of parties' preferences for decentralization weighted by legislative bargaining power. Our first hypothesis is that, holding constant structural determinants like inter-regional inequality or ethno-linguistic diversity greatly emphasized by previous research, the greater the legislative bargaining power of parties with decentralization demands the more likely decentralization reforms will occur. We also postulate a second hypothesis according to which the degree of polarization in Parliament in the traditional left-right dimension conditions the ability of parties pushing for decentralization in Parliament to distort the distribution of political authority. We test our hypotheses for 15 OECD parliamentary democracies by using CMP data and the index of regional political power recently gathered by Hooghe et al (2008).

* Francesc Amat is a DPhil student in Political Science at Nuffield College and Albert Falcó-Gimeno is a PhD candidate in Political Science at Universitat Pompeu Fabra, Barcelona. We would like to thank Christian Lessmann , Pablo Beramendi, Abel Escribà-Folch, and Ignacio Lago for their comments and help with the data. A previous version of the paper was presented at the "Research Forum" organized by the Department of Political and Social Sciences of Universitat Pompeu Fabra, June 10th, 2010, Barcelona. We also want to thank the seminars participants for valuable comments.

Introduction

Why and when decentralization reforms take place in advanced Parliamentary democracies? This question can be understood as a particular reformulation of the well-known "who gets what, when, and how?" by Harold Lasswell (1936). This article provides an answer to this question by focusing on how particular compositions of the legislative arena affect the implementation of decentralization reforms. By using CMP data we seek to provide an empirical test of a political mechanism that links the idiosyncratic configuration of a Parliament with decentralization reforms that increase regional authority.

Decentralization has been a widespread phenomenon in many countries over the last decades, and not only in developing countries but also in advanced democracies (Treisman 2007). Although some previous research have studied separately political and fiscal decentralization here we take advantage of the data recently gathered by Hooghe et al. (2008) and we conceptualize decentralization as a measure of the distribution of political power –which includes both fiscal and political competences– between the central and regional governments. Hence, we study the political determinants of those circumstances in which central governments devolve some of their competences to regional political authorities.

Simply put, our argument is that the composition of the legislative arena in parliamentary democracies is crucial to understand changes in the distribution of political authority between the centre and the regions. We argue that the specific distribution of parties´ preferences and bargaining power in the legislative is a crucial political determinant of decentralization. By considering insights from both the legislative bargaining literature (e.g. Baron and Ferejohn 1989; Baron and Diermeier 2001) and the endogenous decentralization literature (e.g. Filippov, et al. 2004; Beramendi 2009) we contend that the actual degree of decentralization in a parliamentary democracy is an endogenous institution subject to legislative bargaining by political parties. And we argue that legislative bargaining should be a determinant of decentralization to be added to other economic and political structural factors that previous research has underscored (Beramendi 2007b; Treisman 2007; Erk and Koning 2010).

Our contribution highlights the role of a particular institutional arena, namely the legislative, as the place in which in parliamentary democracies political parties bargain and alter the distribution of political and fiscal authority at the regional level. We defend that the actual distribution of parties' preferences and bargaining power in a legislature acts as an institutional constraint for the political will of a given party to implement decentralization. That is, we assume that a political party bargains in the legislative over decentralization reforms subject to the distribution of preferences for decentralization and bargaining power of the other parties. In other words, if a party without a legislative majority wants to increase or decrease decentralization levels needs to find coalition partners and agree with them on decentralization policies. Otherwise if the coalition partners disagree and reject the proposal on decentralization the main party would lose the vote to pass the reform.

Two main hypotheses are derived from this reasoning. The first one is that the distribution of parties´ preferences itself should not matter for decentralization but instead the distribution of parties´ preferences weighted by bargaining power should be a significant determinant of decentralization reforms. The second hypothesis is that the degree of polarization in the first dimension, namely the left-right scale, should act as a conditioning factor that increases the likelihood of decentralization because coalitions on the first dimension become relatively more expensive. To test our hypotheses we construct an index of the saliency of the decentralization dimension that reflects the distribution of parties´ preferences weighted by legislative power for 15 OECD parliamentary democracies over the period 1975-2000. To construct this index we use CMP data that provides information about party's claims regarding decentralization.

Theory and Hypotheses

Endogenous Decentralization: Theoretical Perspectives

There is a vast body of literature that uses decentralization as the main independent variable of interest to study its effects on all sorts of political and economic outcomes (e.g. Treisman 2000; Rodden and Wibbels 2002; Enikolopov and Zhuravskaya 2007; Brancati 2008). Over the recent

years, though, many scholars have pointed out the need to endogenize decentralization and uncover its political determinants (Wibbels 2006; Beramendi 2007b). This effort is well justified as long as we are interested in claiming exogenous effects of decentralization, because as Beramendi (2007b) highlights: "insofar as federal institutions reproduce the underlying tastes of the relevant political coalitions, they do not really matter per se".[1] In fact, this debate echoes an old remark formulated by Riker (1969): does federalism (and political decentralization) have independent effects or it is nothing more than an institutional outcome which is entirely endogenous to the political preferences of the crucial political actors? If the latter is true then the understanding of the strategic incentives and the institutional constraints under which the main actors operate becomes essential.

In parallel, many authors have also pushed to shift focus from optimal to actual levels of decentralization (Wibbels 2006). The emphasis in many previous studies had been placed on normative questions without considering the actual political incentives and institutional constraints affecting the relevant actors. Strongly influenced by the fiscal federalism literature, Panizza (1999) developed a model of optimal fiscal decentralization and Persson and Tabellini (1996) focused on normative trade-offs when analyzing the effects of alternative fiscal constitutions. However, recent studies with a positive approach have underscored that the relationship between structural factors and decentralization is actually conditional on characteristics of the party system and political incentives (Filippov et al. 2004; Beramendi 2009). Moreover, many patterns of regional redistribution and fiscal decentralization remain unexplained and further research is needed to disentangle the political mechanisms that drive actual fiscal and political decentralization.

The literature on endogenous decentralization has tended to focus mainly on structural determinants, specially the empirical contributions (Panizza 1999; Treisman 2006; Erk and Koning 2010; Hooghe et al. 2008). Panizza (1999) highlighted the role of four main variables associated with changes in the degree of fiscal decentralization: land area, GDP per capita, ethnic fractionalization and democratic history. On the other hand, Treisman (2006, 2007)

[1] The author refers to federal institutions but exactly the same logic applies when thinking about endogenous political decentralization.

underscored the role of economic development, country size, and colonial history but did not find statistical evidence for ethnic diversity and democracy being associated with fiscal decentralization. However, the evidence provided by these studies is often times inconclusive, either because the sample of countries varies from one study to another or due to methodological concerns. Yet even more importantly, a common concern with these large-N cross-country empirical studies is the lack of attention to the political incentives and institutional constraints that are idiosyncratic to each country.

According to Hooghe et al. (2008), political authority of regional governments increased in most OECD countries between 1950 and 2006. Supply-side explanations of this gradual process of political decentralization are the absence of external threats, the global integration and pressures from international markets, and, last but not least, a functional logic of devolution intended to satisfy preference heterogeneity within countries (Erk and Swenden 2009). From a different perspective, the works of Bolton and Roland (1997), Alesina and Spolaore (2003), and Beramendi (2007a) put at the center of the analysis the relation between distributive outcomes, inequality and political and fiscal decentralization. The main insight of this research is that to account for the design of decentralized systems it is necessary to understand how the territorial distribution of income shapes individual preferences.

Erk and Koning (2010) have put forward a new structuralism approach for explaining institutional changes that takes into account the interaction between the social structure and the political mobilization of interest groups. They argue that in those heterogeneous countries with territorially concentrated linguistic groups –such as Spain or Belgium– political mobilization along linguistic lines should exert pressure for deepening fiscal decentralization. Whereas in homogeneous federations without such political pressures the tendency should be towards fiscal centralization and eventually institutions should adapt accordingly. The approach by Erk and Koning (2010) is highly interesting but still it lacks a discussion of the institutional channels through which the demands of mobilized interest groups will be more or less successful. Even if it is true that structural factors are the main determinants of long-term institutional equilibriums a study of the strategic incentives and institutional specificities is needed to account for the dynamics of decentralization.

Therefore, structuralist explanations of endogenous decentralization seem to be ill-equipped for providing an explanation that accounts for why and when decentralization reforms occur. Too often structural determinants have been assumed to work in a political vacuum when in fact decentralization is fundamentally a political outcome. Thus, the lack of a well-specified political mechanism becomes a hurdle to answer both the why and when questions. Instead, here we conceive the actual degree of decentralization in a Parliamentary democracy as an endogenous institution subject to legislative bargaining by disciplined political parties. In other words, we contend that political incentives play a crucial role in explaining the scope of decentralization.

Bringing politics back in: the role of political parties

Hence, there is the need to bring politics back into the study of endogenous decentralization and go beyond structural explanations. In that sense, our approach is more related to the literature on the evolution of decentralization and party systems (Riker 1964; Chhibber and Kollman 2004; Swenden and Maddens 2009). This literature, however, is inconclusive with respect to the direction of causality linking party systems and decentralization.[2] On the one hand, Chibber and Kollman (2004) argue that it is the architecture of the state what drives the degree of party system nationalization. One of their main insights is that regional parties will be more powerful the higher the degree of political authority at the subnational level. Similarly, Brancati (2006) has shown that the strength of regional parties increases with political decentralization.

On the other hand, Riker (1964) claimed that it is the structure of political parties what drives fiscal decentralization. But more in line with the argument presented in this paper, Filippov et al. (2004) argued that the stability of a federal contract is a function of a political conflict between political elites. They claim that the strategic incentives of political parties electorally motivated are the main source of stability in a given federation. If the structure of the party system is horizontally and vertically integrated institutions will be endogenously self-enforcing,

[2] See Amat et al. (2009) for a discussion of the relationship between the characteristics of the party system and the dynamics of decentralization.

whereas if electoral competition becomes fragmented distributive conflicts will emerge and will end up disrupting the core constitutional rules. Thus, the structure of the party system is the political mechanism that ultimately links the society's composition with changes in institutional outcomes.

From a related perspective, recent studies like Lago-Peñas and Lago-Peñas (2009) or Beramendi (2009) have studied the relationship between the characteristics of the party system and the implementation of fiscal policies. On the one hand, Lago-Peñas and Lago-Peñas (2009) argue that the structure of the party system affects the extent to which the composition of public spending is subject to manipulation. They show that when the party system is weakly nationalized, and hence regional parties are likely to act as veto players, the composition of public spending is more rigid than in those countries with highly nationalized party systems. On the other hand, Beramendi (2009) contends that the relationship between regional inequality and decentralization of redistribution is contingent on the balance of political power between the centre and the regions. In those countries with centrifugal political representation, where territorial interests have a political voice, higher levels of regional inequality should imply greater decentralization of redistribution, but not in countries with different representative institutions.[3]

However, none of the studies on party systems and decentralization have focused on the specific institutional arenas in which political parties actually bargain and modify the rules of the game in terms of the distribution of political and fiscal authority at the regional level. This is the main reason why most of these works provide a political mechanism for why we should observe decentralization but still not a good reasoning about when those outcomes are likely to be implemented. In fact, studies like Caramani (2004) and Chhibber and Kollman (2004) undertake a broad comparative historical approach that highlights long-term trends in the evolution of party systems but at the cost of a more detailed and less generalizable analysis of the strategic incentives of political parties at each point in time. Whereas Filippov et al. (2004)

[3] On the role of party politics on fiscal decentralization see also León-Alfonso (2007).

focus on parties' strategic incentives but not on the actual institutional constraints that conditions the ability of political parties to distort the rules of the game.

In this paper we argue that we can improve our understanding of why and when decentralization reforms are implemented by focusing on the legislative configuration. In Parliamentary democracies coalition and minority governments are the norm rather than the exception. As Müller and Strom (2000: 2-3) pointed out: "in the great majority of Western European states, coalition politics is at least an occasional occurance, and often the order of the day". However, the literature on the political economy of federalism and decentralization has made extensive use of electoral competition models that assume unitary incumbents.[4] But quite in the opposite direction, in Parliamentary democracies coalition and minority governments reflect the preferences of more than one party (Baron and Diermeier 2001). This is the case given that a legislative majority is needed to sustain the executive government in place. Therefore policy outcomes like decentralization are the result of legislative bargaining among disciplined parties that form a legislative majority. In other words, the actual composition of the legislative becomes a key variable to understand what bills are passed. Thus, the composition of the legislature can be considered as an institutional constraint that limits the incentives of political parties.

Very much in line with the argument discussed here, Rodden and Wilkinson (2004) argued that in India the shift from an era of majoritarian dominance by the Congress Party towards a new scenario of coalition politics implied a change in the patterns of distributive politics. They present empirical evidence according to which a legislative bargaining model is helpful to understand the patterns of fiscal transfers in India during the post 1996 period. They conclude that "[d]iscretionary resources must be used as glue to hold together fractious coalitions. […] Formateur parties attract and retain coalition partners by offering them expenditure projects". More recently, Dragu and Rodden (2010) have analyzed the role of territorial representation to explain levels of inter-regional redistribution across federations. They present a legislative bargaining model in which regional representatives form minimal winning coalitions and decide

[4] A reference that assumes a unitary incumbent, which is very often used in the political economy literature on intergovernmental transfers, is Dixit and Londregan (1996).

over redistributive outcomes. However, the model they discuss is not entirely appropriate for Parliamentary democracies, where political parties are the main agenda-setters and act in a disciplined manner. The bargaining game they present is among state-legislators and not between political parties.

Our Contribution and Hypotheses

So from previous contributions we know that the level of decentralization of a given country is not something that is simply there, exogenously. Instead, it responds to several determinants which have been said to be structural and also political. But still, there is a great deal of cross-national and cross-time variation that needs to be accounted for.

As said, we contend that there is an additional political determinant that has received surprisingly little attention (notwithstanding the recent efforts made by Rodden and Wilkinson (2004) or Dragu and Rodden (2010)). Given that decentralization is first and foremost a political outcome, one would expect that the game of politics plays a relevant role in explaining the actual levels of decentralization that a given country adopts. Beyond the importance of the vertical bargaining between national and subnational elites that has been already dealt with in previous research, we claim that political bargaining over decentralization does also take place at the national level separately. More concretely, at the legislative arena. At the end of the day it is within legislatures that political measures are decided upon, possibly after parties have negotiated over them. This is especially the case in Parliamentary democracies.

We know that legislatures matter for political outcomes. The formal theoretical study of bargaining within legislatures dates back to the seminal article of Baron and Ferejohn (1989). The implications of theirs and subsequent works in the same vein go mainly in two directions. First, the decision-making rules in the legislature matter (e.g. open vs. closed rules), providing more or less proposer advantages. Second, and more generally, the specific distribution of parties' preferences and power make a huge difference to understand which will be the likely political outcomes in a given Parliament.

The latter determines, among others, government formation. When one party alone gets the electoral votes necessary to reach the absolute majority of seats in Parliament, the most likely formation is a single-party majority government where the party would have enough room to push policies toward their ideal point. By contrast, if no party beats the 50% seat share threshold then a coalition or a single-party minority cabinet has to form. That of course will influence the policies implemented depending on the preferences and power of each bargaining party.

Governments are so to speak the result of particular legislature compositions. The scenario giving birth to the actors that will eventually decide upon policies is the Parliament. And decentralization policy is no exception. The decentralization preferences of political parties along with their strength to negotiate the policies they desire should definitely be taken into consideration when trying to understand when and why decentralization reforms occur. As far as we are concerned, this issue has been largely overlooked in previous studies endogenizing countries' decentralization levels.

We believe that by bringing this element into the research on the politics of decentralization we are taking an important step forward that comes to fill a gap left by previous scholarly contributions on the issue. Notwithstanding all the structural and other political determinants that have been said to explain decentralization outcomes (that is, keeping these factors constant), negotiations between parties in national legislatures should certainly influence them as well.

In sum, in this paper we claim that getting to know the specific configuration of the legislative arena will improve our understanding of when and why decentralization reforms are passed. We thus expect legislative bargaining at the national level to account for part of the unexplained variation in decentralization levels. And that should be reflected in the influence of two factors: i) the preferences of the parties present in Parliament and ii) their bargaining power.Everything else the same, we should expect a Parliament preferring decentralization more intensely to be more likely to pass legislative reforms giving more power to regional entities. At this point, our argument is admittedly rather obvious, although it has never been

actually tested empirically. That would give rise to a first preliminary hypothesis: the more the salience of parliamentary parties' preferences with regard to decentralization, the more likely decentralization will be.

As suggested above, though, our argument does not stop here. We contend that even small changes in the distribution of forces within the legislature could greatly shift the prospects of decentralization reforms. In Parliamentary democracies what matters is the situation in which parties find themselves to negotiate policies, namely, their bargaining power. And that could dramatically change with just a very few seats disturbance. Hence, the main directional hypothesis to be tested in this paper is the following:

Hypothesis 1: The more the bargaining power of parties' decentralization claims the more likely decentralization will be.[5]

Since we will be using both an unweighted measure of legislatures' salience on decentralization and one weighted by bargaining power (see next section), one could say that there is sort of a supplementary hypothesis that derives from this fact. The weighted measure should outperform the one simply taking into account legislature's mean decentralization preference. We will check that in the empirics as well.

Additionally, we will also look at the role of a further constraint that should act as a moderator factor in the effect we are predicting. That will be the ideological polarization within Parliament in the first dimension. Up to this point we have argued that decentralization will be affected by the positions that parties take in the (usually secondary) decentralization dimension and by their negotiating strengths. The latter should boost the potential influence of parties' decentralization claims on legislative outcomes. The logic underlying this is that coalitions containing parties salient on the decentralization dimension (either governmental of

[5] The wording of this hypothesis is certainly tricky. Decentralization *claims* cannot obviously have bargaining power themselves. It is parties that have the latter. However, we did not want to restrict ourselves to rephrase it as "the more the bargaining power of parties favouring decentralization, the more…" since we will in fact look at all the parties in the legislature and not only pro-decentralization ones. As explained later, our main independent variable will be an index on the legislatures' preferences over decentralization (based on their parties' positions, whatever they are) weighted by the bargaining power of the parties in them.

legislative)[6] will be more "inescapable" when it comes the time to pass laws. However, and here comes the moderating effect, how easy it is to form alternative coalitions in other (usually more primary) dimensions should in turn affect the potential influence of decentralization demands, as it would either limit or provide more room for parties' strategies to succeed. The intuition goes as follows. The more polarized are the legislative parties in the primary left-right dimension, the more difficult it is to form coalitions (i.e. come to agreements) on that dimension. As a result, it gets cheaper –in relative terms– to close deals in other dimensions such as the decentralization one, and therefore decentralization claims are more "exploitable" by negotiating parties. So the second (interactive) hypothesis of our work is:

Hypothesis 2: The higher the polarization in the primary (left-right) dimension, the stronger the impact of the bargaining power of parties' claims on a secondary (decentralization) dimension.

Data and Variables

For the empirical analysis we focus on 15 OECD parliamentary democracies over the time-period 1975-2000. By narrowing down our sample of countries and using cross-section time-series data we are able to test our hypotheses for a coherent set of countries and avoid common criticisms of previous empirical literature (Rodden 2002). Namely, we overcome the problems associated with large N cross-country studies by exploiting within-country variation for a reduced number of countries for which we have well-defined theoretical expectations. The 15 countries under study are the following ones: Australia, Austria, Belgium, Canada, Denmark, Germany, Greece, Ireland, Italy, Japan, Netherlands, Norway, Spain, Sweden and the United Kingdom.

We gathered data coming from different sources. On the one hand we use the "Regional Authority Index" by Hooghe et al. (2008) as our dependent variable, although we open the enclosed black box by disaggregating its components in the subsequent analyses. On the other

[6] Laver and Schofield (1990) use these terms when referring to agreements leading to the formation of a multiparty government and agreements only for the legislative support between parties, respectively.

hand, we collected data from the Comparative Manifesto Project (for details see Budge et al. 2001) to construct our main independent variable of interest: an index of the saliency of the decentralization for each parliament-year that captures the distribution of parties´ preferences weighted by legislative bargaining power.

Dependent Variables

Since our argument is a political one (i.e. focusing on legislative bargaining as a main political determinant of decentralization) we need to choose the measure of decentralization that fits best the specific purposes of our investigation (Stegarescu 2004). We are interested in a codification of decentralization that distinguishes the political power of central versus regional governments and at the same time qualifies the size and scope of regional authority. The former is crucial since our theoretical expectation is that regional parties and other parties with strong preferences for decentralization will bargain for a change in the distribution of power between the centre and the regions. On the other hand, the latter is important since we are interested in disentangling the nature of decentralization reforms. We contend that the data recently gathered by Hooghe et al. (2008) constitutes the best index currently available for our purposes.

Hooghe et al. (2008) developed an index that measures regional authority in 42 developed democracies for the period 1950-2006. The "Regional Authority Index" *(RAI*) is an additive index of a variety of indicators that codify the extent to which regional authorities enjoy political power. Specifically, they define a regional government as the "a coherent territorial entity situated between local and national levels with a capacity for authoritative decision making". They conceive regional authority in two main scales that add up into a single index. On the one hand "Self-Rule" codifies the extent to which regional governments can make autonomous decisions over those citizens living in the region. On the other hand, "Shared-Rule" measures to what extent regional governments co-exercise authority with central governments. Each of these two main dimensions contains further indicators that describe various institutional

arrangements.[7] Hence, one crucial advantage of using the RAI index is the possibility to distinguish Self-Rule from Shared-Ruled when studying regional authority. Indeed in the next section we run separate analyses for each of the dimensions of RAI to study if legislative bargaining affects differently Self-Rule and Shared-Rule.

The RAI index ranges in a continuous scale adding both Self-Rule and Shared-Rule scores. Spain is an interesting country in the present study since it has experienced a great deal of decentralization reforms over the period 1978-2000. According to the RAI aggregate measure in 1987 the index scored 10.0 points whereas in the period 1997-2006 the RAI value for Spain was 22.1. The main driving force behind this change is, according to the RAI measures themselves, a dramatic increase in Self-Rule for the Spanish Autonomous Communities (CCAA) that climbes from 8.0 to 19.1 points. The RAI index also increased significantly in many other of our 15 countries under study. In Italy it grows from 13.6 to 19.5 between 1975 and 2000; in Belgium it rises from 22.9 points to 29.0 over the same years; in Greece it goes from 1.0 to 10.0 in a similar period whereas in Australia also grows from 18.0 in 1975 to 19.4 in 2000. Most of these increases followed a gradual process, although it is true that most decentralization reforms primarily affected the Self-Rule dimension of the RAI index.

On the other hand, it is worth emphasizing that the RAI index behaves very coherently when compared to other decentralization measures widely used in previous literature (Arzaghi and Henderson 2005; Brancati 2006; Hooghe and Marks 2001; Land and Ersson 1999; Lijphart 1999; Treisman 2002; Woldendorp et al. 2000). Schakel (2008: 161) undertakes validity checks and conclude that "a comparison of the RAI with seven decentralization indices in the literature shows a great amount of agreement". And more importantly, one of the main advantages of the RAI index is that compared to previous measures of decentralization it focuses on regional governments' political authority and completely excludes local governments. Given that we are interested in how legislative bargaining affects the distribution of political authority between the centre and regions, the RAI index is an adequate measure of decentralization.

[7] Self-Rule aggregates the following scales: institutional depth, policy scope, fiscal autonomy, and representation. On the other hand, Shared-Rule aggregates law making, executive control, fiscal control, and constitutional reform. For a further description of each indicator see Hooghe et al. (2008).

Main Independent Variables

To repeat it again, in this paper we want to know whether or not the specific configuration of legislatures has any effect on the levels of decentralization that a given country adopts. Since decentralization is mainly a political (legislative) outcome, we argue that the preferences and bargaining strength of parties in the legislature should be important additional determinants of the passage of decentralization reforms. To address this hypothesis empirically we first need to have a measure of how salient it is the issue of decentralization in any given legislature.

To do that, we turned to the CMP data (Budge et al. 2001) and picked the variables *per301* and *per302* to account for each party's claims regarding decentralization.[8] The former measures quasi-sentences in several party documents with a positive feeling about decentralizing the country, whereas the latter accounts for the opposite (namely, negative views over decentralization). Simply subtracting *per302* from *per301* gave us the overall stance of each party on decentralization. Having done this, the next step was to move beyond the party level and have a measure on how salient the issue of decentralization was for the Parliament as a whole. Our strategy here was twofold. First, we simply took the mean of parties' decentralization salience in the legislature. That provided the unweighted variable *Decentralization Salience (in Parliament)*.[9]

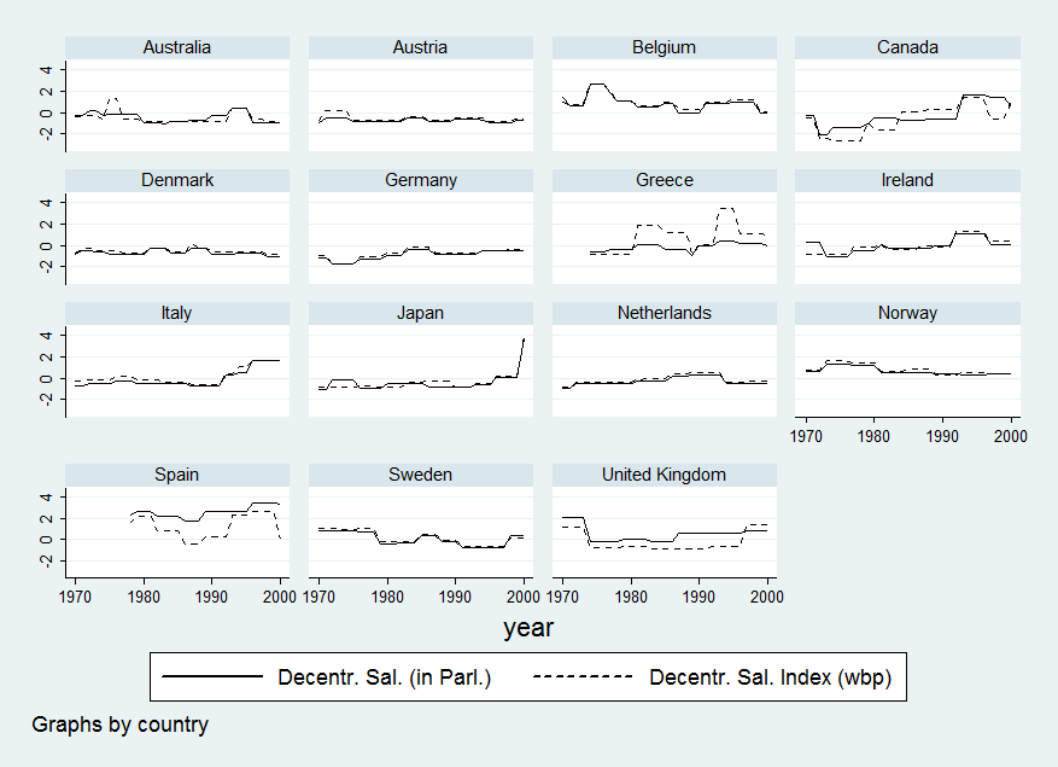
Second, we built a weighted index that made for our main substantive independent variable. Certainly, the claims of every party present in the legislature regarding decentralization do not have the same potential to be successful. Relying on the unweighted measure alone might thus be misleading. Instead, we looked at the strength of each party in the Parliament by assigning value 3 to those parties that had the absolute majority of seats in case that scenario occurred, value 2 to those that would need only one other party to get the 50%+1 of the seats, value 1 to those parties that would need more than one party to reach that threshold, and a 0 to opposition parties in legislature where there is a party with a value 3. We added a 0.5 for those parties that not having reached the absolute majority of seats in Parliament were the largest in

[8] Though in a slightly different way, Benoit and Laver (2007) do also group *per301* and *per302* to account for the position of parties on the decentralization policy.
[9] From now on, *Decentr. Sal. (in Parl.)*.

it.[10] We then computed the "proportion of power" that each party got with respect to the whole legislature. That share was next used to weight each party's salience on decentralization in the calculation of the weighted mean giving the legislature's decentralization salience index. That is, the variable *Decentralization Salience Index (weighted by power)*.[11]

The time trends of the variables *Decentr. Sal. (in Parl.)* and *Decentr. Sal. Index (wbp)* in our data are graphed by country in the following figure. It is here worth saying that these main independent variables were standardised to a distribution with a mean of 0 and a standard deviation of 1.

Figure 1



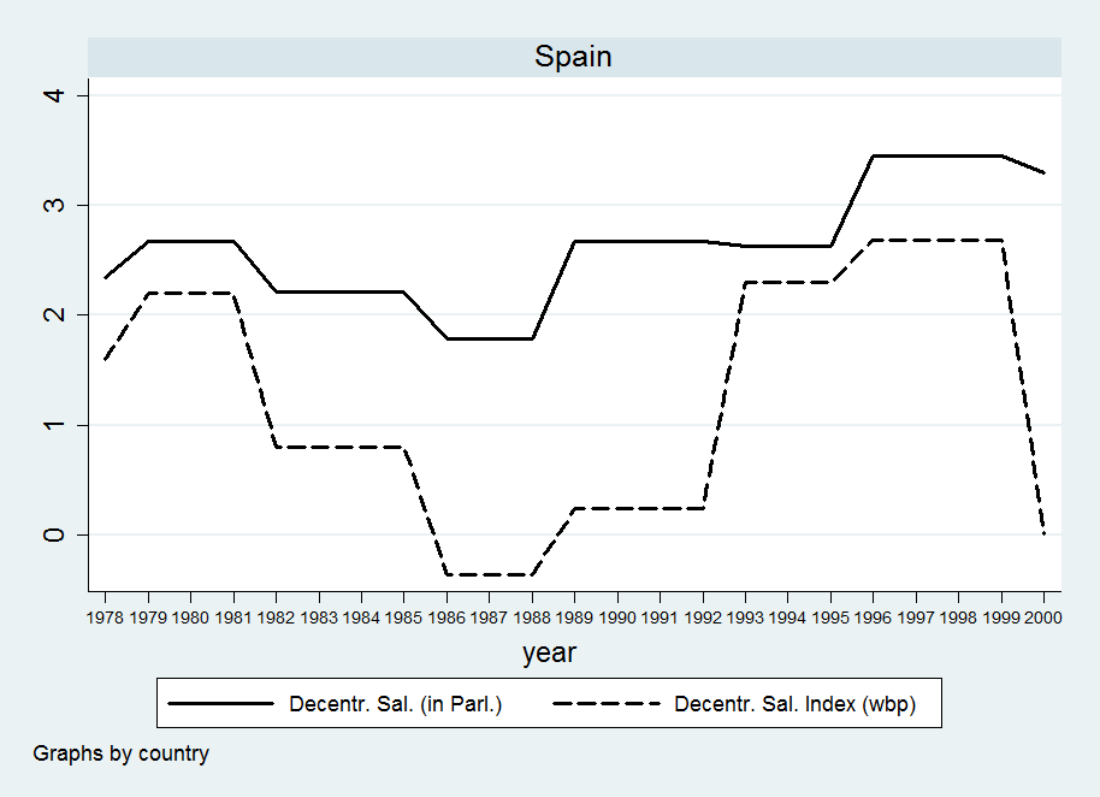
[10] The logic underlying this half a point bonus is that often times, in legislatures where no party can form a single party majority government on its own, formateurs are those having the largest number of seats (Diermeier and Merlo (2004) document that the formateur selection rule that best fits data is proportionality to seat share). It is well accounted that formateur parties have bargaining advantages and this is why we considered their views should count more in the calculation of the decentralization salience of legislature (on this issue of formateur advantages see for instance the well-known Baron and Ferejohn (1989) legislative bargaining model).

[11] Hereafter, *Decentr. Sal. Index (wbp)*.

As one could tell a priori, this figure shows that in general the weighted variable has more variability than the unweighted one. While the latter captures changes in the parties' positions on the decentralization dimension from election to election, the former does also incorporate the strength issue. Keeping the parties' manifestoes content constant across elections, there could be huge changes in our weighted index with a fairly minor shake of election results (and thus seat distribution). For instance, a Parliament with a pro-centralization party close to the absolute majority but falling behind it could take a much higher *Decentr. Sal. Index (wbp)* value than in the exact same situation but with that party having reached the 50% threshold (and that in principle could just be a matter of a couple of seats). In the latter case our index would take exactly the value of the decentralization salience of that party. That certainly would not be the case with *Decentr. Sal. (in Parl.)*, only sensitive to changes in parties' political stances.

The case of Spain provides a nice illustration of how our weighted index works (dashed line) as opposed to the unweighted one (solid line).

Figure 2



Although both measures follow a similar overall tendency, it is clear that the variability of our index is considerably higher than that of the raw (unweighted) mean. With regard to the former we can for instance see that after the nationwide social-democratic "Partido Socialista Obrero Español" (PSOE) overwhelmingly won elections in 1982 with almost 60% of the seats our index goes rapidly down as regional (overtly pro-decentralization) parties no longer had room to negotiate policies credibly. The dashed line goes down again in 1986 with the PSOE's renewal of the absolute majority. This last change is only attributable to a more pro-centralization stance that this party took for the new elections. The next big change occurs in 1993 when PSOE loses its previously privileged position and obtains less than 50% of the seats. That gave regional parties the opportunity to bargain over decentralization policies in exchange for support in the passage of other laws. This is scenario is similar to the 1996-2000 one, where the nationwide conservative "Partido Popular" (PP) won elections but only with a 45% seat share. However, the absolute majority victory of this pro-centralization party in 2000 causes our index to fall dramatically in that year.

Finally, in the previous section we also suggested that the potential influence of legislative decentralization salience may well be conditioned by the polarization in what is most often the primary dimension of electoral competition: the left-right one. To measure that, we simply took the legislature's standard deviation of parties' left-right positions as coded in the CMP dataset (variable *Left-Right Polarization (in Parliament)*).[12] Again, we standardised this polarization measure. The resulting interaction to assess the second general hypothesis of this work is then *Decentr. SI * LR Polariz.*, in which we only consider our weighted index of decentralization salience.

Needless to say, we tackled the fact that the database containing the information on our dependent variables was a time-series cross-sectional one. We thus transformed the country-legislature database holding the data on our main independent variables into a country-year one to make the merger possible.

[12] *Left-Right Polariz. (in Parl.)* in the tables showing the results.

Controls

Obviously, in the empirical analyses we also include control variables to account for structural determinants of decentralization (Panizza 1999; Erk and Koning 2010). These controls are GDP per capita, inter-regional inequality, ethno-linguistic fractionalization, federalism, area, and democratic tradition at the country-level. The first two are time-varying variables whereas the last four are time-invariant.[13] However, the two time-varying controls are only incorporated in half the models since we lack data on inter-regional inequality for Australia and Japan, but since we do not want to get rid of those countries too quickly we also estimate the models with the 15 countries without these controls.

Both Panizza (1999) and Treisman (2006) provide evidence showing that economic development is associated with greater fiscal decentralization. To take into account this effect we include in our analyses the log of GDP per capita based on PPP measures from the World Development Indicator 2001.

On the other hand, we use data on regional disparities recently gathered by Lessmann (2009).[14] His study analyzes the effect of fiscal decentralization on inter-regional inequalities for 23 OECD democracies from 1982 to 2000. By using data from Cambridge Econometrics Lessmann (2009) develops several measures of inter-regional disparities: coefficient of variation (weighted and unweighted by population) and the adjusted Gini coefficient. Here we use the weighted coefficient of variation for regional income as our measure of inter-regional inequality. Controlling for regional disparities is crucial since previous research has highlighted a positive association between regional inequalities and decentralization of redistribution (Beramendi 2007a).

On the other hand, we also include time-invariant controls in part of our empirical analyses. First, we incorporate the ethno-linguistic fractionalization measures from Roeder (2001) for the year 1985. Ethnic diversity has been argued to be a structural determinant of fiscal

[13] We treat our democratic tradition measure as an almost time-invariant control in our analyses.

[14] We would like to thank Christian Lessmann for kindly making the data on inter-regional inequality available to us.

decentralization (Erk and Koning 2010). Admittedly, though, our measure of ethnic diversity is a crude one since it does not capture territorial concentration and the strength of regional identities.[15] Hooghe et al. (2008) also provide evidence of an "identity effect" according to which individuals "prefer rulers who share their ethno-cultural norms".

Second, we include a dummy variable that takes value 1 if the country is a Federation. As Hooghe et al. (2008) argue, federalism and our dependent variable of interest, the Regional Authority Index, are associated but are not the same thing. They underscore that the growth of regional authority has not been substantial in those countries with a strong federal tradition like Australia or Germany because of a "ceiling effect". However, over the last decades Spain and Italy have implemented strong decentralization measures without adopting a federal constitution. Thus, we believe that its inclusion as a control variable is important to account for other more structural institutional determinants.

Third, we include a measure of the log of area at the country level. Many previous studies on the origins of federalism and decentralization have highlighted country size as a structural determinant of decentralization (Panizza 1999; Erk and Swenden 2009). Hooghe et al. (2008) document as well a "heteroskedasticity effect" according to which the variance in regional authority is greater in larger countries.

And fourth, we include a measure of democratic tradition at the country level developed by Enikolopov and Zhuravskaya (2007). It is constructed using Polity IV data by averaging the index of democracy over 50 years. It ranges from 0 to 10 with higher values corresponding to more democratic outcomes. Panizza (1999) provided evidence of a positive association between democracy and fiscal decentralization. Since our analyses include only advanced parliamentary democracies the only way to obtain variability in democratic outcomes is by accounting for long-term democratic traditions –and this is why we refer to it as a structural determinant.

[15] This is a common problem across the literature on endogenous decentralization (Panizza 1999, Beramendi 2007a, Erk and Koning 2010).

Methods

Given the time-series-cross-section (TSCS) structure of our data and that we focus on a dynamic political process, we use TSCS estimation techniques. We are interested in obtaining estimates of how particular configurations of the legislative cause changes in decentralization levels, analyzing at the same time the nature of the decentralization reforms. More specifically, we estimate separately the effects of our unweighted and weighted indices of decentralization saliency at the Parliament on the indices of regional authority (*RAI, Self-Rule and Shared-Rule*). In this section first we justify the choice of our estimation techniques and afterwards describe the exact specification of the models.

Model Selection

Panel data methods are not adequate in here since our data has a TSCS structure with N=15 and T=25.[16] Instead, we test our hypotheses by using fixed effects (FE) models with a lagged dependent variable (LDV). Both Keele and Kelly (2006) and Beck and Katz (2004, 2009) have argued that LDV models are appropriate to study dynamic effects in political processes with TSCS data. The inclusion of a LDV integrates the dynamic elements into the models. But given that by using fixed effects we are exploiting only within-country variation we proceed in two steps. First we estimate FE models with a LDV and the time-varying controls. And secondly, we use the Plümper and Troeger (2007) procedure to estimate FE models including both time varying and time-invariant controls. On the other hand, the models always include year-dummies to account for unobserved common shocks and we also estimate the models alternatively with clustered and PCSE standard errors.

According to Beck and Katz (2009) FE models with a LDV perform better than alternative methods like the Kiviet or the Anderson for TSCS data. Admittedly, the use of FE models with LDVs is subject to the Achen's critique (Achen 2000). However, to address this concern is recommended to run LM tests for remaining serial correlation (Keele and Kelly 2006; Beck and

[16] We assume that the units (countries) are fixed and not sampled.

Katz 2009). On the other hand, the crucial difference between the LDV models versus an alternative AR1 error model is that the former assumes an exponential adjustment of the dependent variable whereas the latter presumes immediate adjustments. Given our yearly data structure, we believe that a model allowing for an exponential adjustment is more adequate. In other words, since a legislature lasts obviously longer than one year it is reasonable to expect that the effect of X_t (composition of the legislature a given year) on Y_t (decentralization levels) will persist to a certain extent and not only adjust immediately.

Plümper and Troeger (2004, 2007) developed the fixed effects vector decomposition method (FEVD) that allows the incorporation of time-invariant controls. This procedure is helpful as long as it enables the inclusion of theoretically interesting controls that otherwise cannot be included and hence accounts for remaining unobserved heterogeneity.[17] The FEVD algorithm proceeds in three steps. First it estimates the unit effects by a baseline FE model excluding the time-invariant variables, afterwards it regresses the unit effects on the time-invariant variables, and finally it reestimates the first step by including both time varying and non-varying controls plus the residuals of the second step. Plümper and Troeger (2007) argued that if the estimated coefficients for time-varying variables using the FEVD procedure are similar to the ones obtained by a FE estimation then the former is an adequate method.

As a robustness check we estimate the same specifications but through Error Correction Models (ECM) (Davidson et al. 1978). ECM models are useful for two main purposes. First, the ECM models are adequate for both stationary and non-stationary data (Beck and Katz 2009). Although according to Keele and Kelly (2006) our models satisfy stationarity conditions it is reassuring to run the ECMs. And second, ECM models are useful to distinguish the dynamics of the effects –immediate versus steady state impacts– and hence to describe the temporal adjustments of the dependent variable. The coefficients for the lagged variables in levels reflect the persistent effects, whereas the coefficients for the differenced variables capture the transitory effects. Note that the parameter for the lagged dependent variable should be between -1 and 0 to ensure equilibrium properties.

[17] Note that Plümper et al (2007) argue that the XTFEVD is least biased estimator when time-variant and time-invariant variables are correlated with the unit effects.

Model Specification

All that said, the concrete equations to be estimated are the following.

$$\begin{aligned} Decentralization_{i,t} = {} & \phi Decentralization_{i,t-1} \\ & + \beta_1 Decentralization\ Salience_{i,t} \\ & + \beta_2 (Log\ of) GDPperCap_{i,t} \\ & + \beta_3 Interregenional\ Inequality_{i,t} \\ & + \alpha_i \\ & + \varepsilon_{i,t} \end{aligned} \tag{1}$$

Where ϕ expresses the coefficient of the lagged dependent variable, βs refer to coefficients of the independent variables, whereas α captures the country heterogeneity in the mean (i.e. fixed effects). ε is the error term. Finally, subscript i refers to country units, while t to year units.

For the models run with the fixed effects vector decomposition technique, we also incorporate time-invariant or quasi time-invariant (mostly institutional) determinants. To the equation above, we then add four variables with coefficients denoted by ζ and the unexplained part of the fixed effects vector η.

$$\begin{aligned} Decentralization_{i,t} = {} & \phi Decentralization_{i,t-1} \\ & + \beta_1 Decentralization\ Salience_{i,t} \\ & + \beta_2 (Log\ of) GDPperCap_{i,t} \\ & + \beta_3 Interregenional\ Inequality_{i,t} \\ & + \zeta_1 EthnoLinguistic\ Fractionalization_i \\ & + \zeta_2 Federation_i \\ & + \zeta_3 (Log\ of) Area_i \\ & + \zeta_4 Democratic\ Traditions_i \\ & + \eta_i \\ & + \alpha \\ & + \varepsilon_{i,t} \end{aligned} \tag{2}$$

Finally, we add (3) to equations (1) and (2) in the models where we want to test the interactive hypothesis.

$$+\beta_4 Left\text{-}Right\ Polarization\left(in\ Parliament\right)_{i,t}$$
$$+\beta_5 Decentralization\ Salience * Left\text{-}Right\ Polarization\left(in\ Parliament\right)_{i,t} \quad (3)$$

Recall that we use different measures for the variable *Decentralization* (*RAI*, *Self Rule*, and *Shared Rule*) as well as for *Decentralization Salience* (*Decentr. Sal. (in Parl.)* and *Decentr. Sal. Index (wbp)*), so the exact equations behind the estimates provided in the tables summarizing the results will differ depending on the concrete table and column one is looking at. It is also worth repeating here that β_2 and β_3 associated to the two time-varying controls are only estimated in half of the models due to reasons of data availability.

Control variables aside, our hypotheses should lead us to expect β_1 to be positive and statistically significant. Since our theory is not really aimed at disentangling very concrete dynamic effects, we cannot have a precise expectation regarding whether the adjustment of the dependent variable to a change in our main independent variable will tend to be immediate or steadier, although at least we suspect the latter effect to be there without denying the former. Legislatures do not typically last one year only. On the contrary, a change in the potential influence of decentralization claims from the previous Parliament to the next one could well have an effect on the passage of decentralization reforms in two, three, or even four years time. We thus expect part of the effect of our main independent variable to be attained in time through ϕ.

As said in the model selection section, we do also run error correction models. We provide them in the appendix in the form of robustness checks. Besides, they will allow us to observe the dynamic effects better since it separates two speeds of adjustment: short term effects (first differences) and long term ones (lagged values). The precise equations are also provided in the appendix (numbers (4) and (5)).

Empirical Analyses

Tables 1, 2, and 3 display the estimates for the models predicting levels of *RAI*, *Self Rule*, and *Shared Rule*, respectively. The first six models in each table take *Decentr. Sal. (in Parl.)* as the main independent variable. Recall that this is an unweighted measure of the Parliament's mean salience for decentralization based on each party's preference. The last six models substitute this variable for our main substantive one: *Decentr. Sal. Index (wbp)*. As said above, this variable does take into account the political implications of the specific configuration of the legislature, weighting the Parliament's salience for decentralization by each party's bargaining power.

On the other hand, the first two models of each group are run with a fixed effects specification clustering the errors by country. The next two use the same fixed effects specification but with panel-corrected standard errors. The final two are run with the Plümper-Troeger fixed effects vector decomposition three-step technique. Finally, the first column in each group of two take the fifteen OECD countries for which we have data, but without controlling for the time-varying variables *(Log of) GDP per Cap.* and *Interregional Inequality*. The second column does this but lose two of the countries due to data availability (Australia and Japan).

Table 1: Fixed Effects LDV Models (DV: *RAI*)

	Decentralization Salience (in Parliament)						Decentralization Salience Index (weighted by power)					
	Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)		Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)	
RAI (lag)	0.834***	0.815***	0.834***	0.815***	0.838***	0.787***	0.839***	0.830***	0.839***	0.830***	0.843***	0.800***
	(0.038)	(0.052)	(0.036)	(0.066)	(0.042)	(0.069)	(0.038)	(0.053)	(0.035)	(0.061)	(0.041)	(0.065)
Decentr. Sal. (in Parl.)	0.073	0.149	0.073	0.149	0.137*	0.087						
	(0.096)	(0.125)	(0.065)	(0.103)	(0.070)	(0.110)						
Decentr. Sal. Index (wbp)							0.150*	0.222**	0.150***	0.222**	0.198***	0.188*
							(0.082)	(0.090)	(0.056)	(0.100)	(0.064)	(0.112)
(Log of) GDP per cap.		1.108		1.108		0.291		0.808		0.808		0.229
		(1.058)		(0.894)		(0.341)		(1.036)		(0.923)		(0.337)
Interregional Inequality		-2.676		-2.676		-1.921		-1.946		-1.946		-1.572
		(1.895)		(2.462)		(2.255)		(1.612)		(2.414)		(2.225)
Ethno-Linguistic Fract.					0.423*	1.680***					0.475**	1.494***
					(0.232)	(0.382)					(0.236)	(0.381)
Federation					2.206***	2.714***					2.153***	2.593***
					(0.106)	(0.191)					(0.101)	(0.182)
(Log of) Area					-0.090***	-0.139***					-0.076**	-0.117***
					(0.031)	(0.037)					(0.032)	(0.038)
Democratic Traditions					0.065***	0.097***					0.060***	0.106***
					(0.024)	(0.030)					(0.022)	(0.025)
η					1.000***	1.000***					1.000***	1.000***
					(0.070)	(0.087)					(0.074)	(0.100)
Constant	3.224***	-8.924	3.224***	-8.924	2.010***	0.151	3.199***	-6.372	3.199***	-6.372	1.812***	0.229
	(0.895)	(9.297)	(0.618)	(7.672)	(0.414)	(0.626)	(0.883)	(9.115)	(0.602)	(7.936)	(0.411)	(0.615)
Observations	439	255	439	255	386	255	439	255	439	255	386	255
R-squared	0.991	0.990	0.991	0.990	0.991	0.989	0.992	0.991	0.992	0.991	0.991	0.990
Number of countries	15	13	15	13	15	13	15	13	15	13	15	13

Standard errors in parentheses; Estimates for country and year dummies not shown

*** p<0.01, ** p<0.05, * p<0.1

Table 2: Fixed Effects LDV Models (DV: *Self Rule*)

	Decentralization Salience (in Parliament)						Decentralization Salience Index (weighted by power)					
	Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)		Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)	
Self Rule (lag)	0.861***	0.827***	0.861***	0.827***	0.866***	0.815***	0.868***	0.844***	0.868***	0.844***	0.871***	0.831***
	(0.042)	(0.048)	(0.034)	(0.068)	(0.040)	(0.073)	(0.041)	(0.049)	(0.033)	(0.063)	(0.038)	(0.068)
Decentr. Sal. (in Parl.)	0.107	0.153	0.107**	0.153	0.164***	0.139						
	(0.093)	(0.124)	(0.053)	(0.094)	(0.060)	(0.101)						
Decentr. Sal. Index (wbp)							0.171**	0.210**	0.171***	0.210**	0.211***	0.214*
							(0.076)	(0.086)	(0.051)	(0.098)	(0.060)	(0.109)
(Log of) GDP per cap.		1.034		1.034		0.378		0.723		0.723		0.309
		(0.947)		(0.876)		(0.310)		(0.928)		(0.901)		(0.306)
Interregional Inequality		-3.773		-3.773*		-3.125*		-2.987		-2.987		-2.673
		(2.246)		(2.148)		(1.879)		(2.105)		(2.057)		(1.790)
Ethno-Linguistic Fract.					-0.022	1.005***					0.086	0.918***
					(0.183)	(0.311)					(0.186)	(0.311)
Federation					1.021***	1.382***					0.992***	1.306***
					(0.099)	(0.184)					(0.095)	(0.176)
(Log of) Area					0.022	-0.014					0.031	-0.003
					(0.022)	(0.021)					(0.022)	(0.022)
Democratic Traditions					0.004	0.006					-0.004	0.011
					(0.023)	(0.028)					(0.020)	(0.025)
η					1.000***	1.000***					1.000***	1.000***
					(0.114)	(0.113)					(0.124)	(0.139)
Constant	1.731***	-8.131	1.731***	-8.131	0.933**	-1.410**	1.698***	-5.495	1.698***	-5.495	0.807**	-1.159**
	(0.534)	(8.285)	(0.395)	(7.535)	(0.362)	(0.558)	(0.505)	(8.110)	(0.380)	(7.760)	(0.339)	(0.510)
Observations	439	255	439	255	386	255	439	255	439	255	386	255
R-squared	0.983	0.984	0.983	0.984	0.984	0.982	0.984	0.985	0.984	0.985	0.984	0.983
Number of countries	15	13	15	13	15	13	15	13	15	13	15	13

Standard errors in parentheses; Estimates for country and year dummies not shown. *** p<0.01, ** p<0.05, * p<0.1

Table 3: Fixed Effects LDV Models (DV: *SharedRule*)

	Decentralization Salience (in Parliament)						Decentralization Salience Index (weighted by power)					
	Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)		Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)	
Shared Rule (lag)	0.590**	0.851***	0.590***	0.851***	0.853***	0.836***	0.590**	0.848***	0.590***	0.848***	0.852***	0.835***
	(0.243)	(0.008)	(0.080)	(0.156)	(0.111)	(0.156)	(0.243)	(0.007)	(0.080)	(0.156)	(0.110)	(0.156)
Decentr. Sal. (in Parl.)	-0.008	-0.011	-0.008	-0.011	-0.025	-0.051						
	(0.021)	(0.032)	(0.035)	(0.044)	(0.033)	(0.048)						
Decentr. Sal. Index (wbp)							-0.005	0.015	-0.005	0.015	-0.010	-0.016
							(0.017)	(0.015)	(0.020)	(0.021)	(0.017)	(0.023)
(Log of) GDP per cap.		-0.026		-0.026		-0.154		-0.032		-0.032		-0.159
		(0.096)		(0.087)		(0.141)		(0.089)		(0.095)		(0.136)
Interregional Inequality		1.339		1.339		1.616		1.380		1.380		1.588
		(1.253)		(1.423)		(1.508)		(1.235)		(1.439)		(1.512)
Ethno-Linguistic Fract.					0.368***	0.326					0.328***	0.258
					(0.124)	(0.242)					(0.125)	(0.244)
Federation					0.886***	0.862***					0.897***	0.879***
					(0.039)	(0.050)					(0.038)	(0.050)
(Log of) Area					-0.107***	-0.087**					-0.107***	-0.089**
					(0.023)	(0.042)					(0.023)	(0.042)
Democratic Traditions					0.052***	0.066***					0.056***	0.077***
					(0.006)	(0.008)					(0.006)	(0.008)
η					1.000***	1.000***					1.000***	1.000***
					(0.017)	(0.052)					(0.017)	(0.051)
Constant	2.243	0.111	2.243***	0.111	0.882***	1.692***	1.951	0.020	1.951***	0.020	0.840***	1.679***
	(1.307)	(0.877)	(0.434)	(0.739)	(0.221)	(0.401)	(1.183)	(0.795)	(0.471)	(0.671)	(0.220)	(0.395)
Observations	439	255	439	255	386	255	439	255	439	255	386	255
R-squared	0.991	0.991	0.991	0.991	0.994	0.991	0.991	0.991	0.991	0.991	0.994	0.991
Number of countries	15	13	15	13	15	13	15	13	15	13	15	13

Standard errors in parentheses; Estimates for country and year dummies not shown. *** p<0.01, ** p<0.05, * p<0.1

There are two things that stand out from a first look at the three tables. There is first an important difference between the tendencies arising in tables 1 and 2 on the one hand, and table 3 on the other. Secondly, the influence of the main independent variable varies a lot depending on the particular specification chosen (*Decentr. Sal. (in Parl.)* vs. *Decentr. Sal. Index (wbp)*).

Starting with the latter, we note that the unweighted variable performs far worse than the weighted one. It seems to be the case that, controlling for all the traditional variables, a one standard deviation increment of our weighted index of decentralization salience in the legislature causes a positive change of around .2 points in the *Regional Authority Index*. The situation is almost the same when *Self Rule* is the dependent variable (table 2). The effect is always statistically significant at standard levels regardless of the specific estimation technique and both for the 15-country group and for the subgroup of 13 countries.

By contrast, and continuing with tables 1 and 2, the unweighted measure does not offer the same picture. It is true that the coefficients of *Decentr. Sal. (in Parl.)* do always have the expected positive sign, yet they do not reach statistical significance except for three cases (out of twelve). At any rate, even in the latter cases, the magnitude of the coefficients is always lower than the ones related to the variable *Decentr. Sal. Index (wbp)*.

Clearly, thus, our weighted index of decentralization salience outperforms the unweighted mean measure and the findings are well in line with the hypotheses posed above. Keeping all the traditional structural variables constant, there is an important additional political factor that determines the passage of decentralization reforms: the specific configuration of parties in Parliament. Hence, legislative bargaining does indeed seem to matter under the light of the evidence.

However, the behaviour of the dependent variable *Shared Rule* appears to respond to very different patterns. In table 3 we can see that neither the unweighted nor the weighted measures exert any significant influence on this dependent variable. In fact, often times the coefficients are negative, but in any case they are very close to zero and never statistically significant. This is actually a rather interesting substantial finding. Whereas the intensity with

which parties in Parliament demand decentralization has an important effect on how likely it is the legislative passage of reforms giving regional governments more self-authority over the issues of the region, it does not have any impact on reforms giving regional authorities more influence on the country issues as a whole. This difference should certainly merit further attention in investigations to come.

Beyond the substantial independent variables, a brief mention of the role of the controls is also in order. First, the lagged dependent variable has obviously a very important effect. However, the magnitude of the coefficient falls into reasonable boundaries and is not excessively close to 1. What it is implied by results is that the adjustment of our dependent variable is not just immediate. We have an initial impact of around .2 which decreases year after year at a pace of around .8. That means that the effect of changes in our main independent variable resonates in the current year but also feeds into the future (Keele and Kelly 2006; Beck and Katz 2004, 2009).

The two time-varying controls do not appear to exert any important effect in general. If anything, we could say that the more the interregional inequality the less likely the passage of decentralization reforms. That is particularly the case with the dependent variable *Shared Rule*, although the effect is not really systematic across specifications. This result is intuitively reasonable since the higher the disparity between regions, the more likely the poorest ones would veto decentralization. This finding is in line with the evidence provided by some earlier studies (Ezcurra and Pascual 2008), although it runs somewhat counter to the implications of other works related to this issue.[18] On the other hand, the wealth of the country measured by *(Log of) GDP per Cap.* is almost negligible and never reaches standard levels of statistical confidence.

Finally, time-invariant and almost time-invariant controls were included in the fixed effects vector decomposition specification. Although several differences exist across the three tables, we can find some general patterns. First, the more the ethno-linguistic fractionalization of a

[18] Lessman (2009), for instance, finds that higher decentralization is associated to lower interregional inequalities. That would indirectly imply that there is no reason for poor regions to stand against decentralization.

country, the higher the political decentralization. Likewise, political decentralization is more likely in Federations, as well as in countries having experienced more years under democracy. By contrast, the greater the area of the country, the lower the decentralization. Lastly, the coefficient for the greek letter eta (η) is statistically significant and with a value exactly equal to 1 (as it should be according to Plümper and Troeger (2004)).

In the theoretical section of this paper we have suggested that an additional constraint should affect the role of decentralization preferences in the legislature on the passage of decentralization reforms. In this interactive refinement of the theory we claimed that the potential influence of the specific stances on decentralization taken by parties in Parliament may be conditioned by their position on the primary left-right dimension. Concretely, we contended that one should expect the former to be stronger, the higher the polarization in the latter. The argument was pretty straightforward. The formation of legislative coalitions entailing transactions on the decentralization dimension would be "cheaper" (i.e. easier) the more difficult it was to agree on the first left-right dimension. We then assumed the latter difficulty to increase with polarization.

Table 4 shows the models with the interactions between our weighted index of decentralization salience and the polarization in the left-right dimension (*Decentr. SI * LR Polariz.*). It does for the two dependent variables that have emerged to be sensitive to changes in the configuration of the legislature in the previous three tables (*RAI* and *Self Rule*).

TABLE 4: Fixed Effects LDV Models with Interactions (DVs: *RAI* and *SharedRule*)

	DV: *RAI*						DV: *Self Rule*					
	Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)		Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)	
DV (lag)	0.842***	0.829***	0.842***	0.829***	0.846***	0.788***	0.869***	0.839***	0.869***	0.839***	0.872***	0.819***
	(0.039)	(0.050)	(0.035)	(0.060)	(0.040)	(0.064)	(0.042)	(0.047)	(0.033)	(0.063)	(0.039)	(0.068)
Decentr. Sal. Index (wbp)	0.134*	0.227***	0.134**	0.227**	0.179***	0.183	0.156**	0.212***	0.156***	0.212**	0.195***	0.207*
	(0.069)	(0.066)	(0.056)	(0.102)	(0.065)	(0.116)	(0.061)	(0.064)	(0.051)	(0.099)	(0.060)	(0.112)
Left-Right Polariz. (in Parl.)	-0.013	-0.044	-0.013	-0.044	-0.011	-0.114	-0.023	-0.074	-0.023	-0.074	-0.017	-0.114
	(0.038)	(0.074)	(0.043)	(0.114)	(0.050)	(0.118)	(0.037)	(0.055)	(0.041)	(0.112)	(0.048)	(0.114)
*Decentr. SI * LR Polariz.*	0.124**	0.094	0.124**	0.094	0.159***	0.112	0.115**	0.069	0.115**	0.069	0.138**	0.077
	(0.048)	(0.080)	(0.053)	(0.088)	(0.061)	(0.093)	(0.046)	(0.077)	(0.048)	(0.083)	(0.054)	(0.087)
(Log of) GDP per cap.		0.755		0.755		0.175		0.681		0.681		0.255
		(1.039)		(0.935)		(0.324)		(0.936)		(0.913)		(0.298)
Interregional Inequality		-2.055		-2.055		-1.576		-3.118		-3.118		-2.678
		(1.684)		(2.385)		(2.215)		(2.143)		(2.041)		(1.790)
Ethno-Linguistic Fract.					0.699***	1.552***					0.286	0.879***
					(0.233)	(0.386)					(0.184)	(0.314)
Federation					2.084***	2.681***					0.955***	1.336***
					(0.098)	(0.176)					(0.093)	(0.172)
(Log of) Area					-0.110***	-0.100***					0.001	0.032
					(0.032)	(0.037)					(0.023)	(0.023)
Democratic Traditions					0.043**	0.124***					-0.017	0.026
					(0.022)	(0.025)					(0.020)	(0.025)
η					1.000***	1.000***					1.000***	1.000***
					(0.077)	(0.097)					(0.122)	(0.129)
Constant	2.390***	-5.537	2.390***	-5.537	2.335***	0.522	1.617***	-4.696	1.617***	-4.696	1.268***	-1.041**
	(0.611)	(9.065)	(0.609)	(7.887)	(0.416)	(0.615)	(0.519)	(8.076)	(0.387)	(7.711)	(0.352)	(0.518)
Observations	439	255	439	255	386	255	439	255	439	255	386	255
R-squared	0.992	0.991	0.992	0.991	0.992	0.990	0.984	0.985	0.984	0.985	0.985	0.983
Number of countries	15	13	15	13	15	13	15	13	15	13	15	13

Standard errors in parentheses; Estimates for country and year dummies not shown. *** p<0.01, ** p<0.05, * p<0.1

The interactions seem to work reasonably well and in line with the hypothesized effect. Admittedly, the positive coefficients do only achieve statistical significance in the models estimated for the 15-country group. However, for the restricted sample in the other half of the models with the time-varying controls the sign of the coefficient is always the expected one despite the effect is not significantly different from zero. With some notes of caution, then, we can say that indeed polarization in the left-right dimension seems to make decentralization demands more exploitable in the legislative game and thus more successful.

As mentioned in the previous section, we have run several analyses to check the robustness of our results. Although we have shown that the main models with the lagged dependent variable (LDV models) were appropriate for most of our data generating process, tables 5, 6, and 7 in the appendix do also offer the same analyses but specifying error correction models (ECM). Not surprisingly, the emerging patterns are very similar to the ones seen in tables 1, 2, and 3, but also yield additional implications. Indeed, our weighted index performs far better than the unweighted one and, once again, the effect is always noticeable in the tables taking *RAI* and *Self Rule* as dependent variables but not when looking at *Shared Rule*. That implies that the only reason why *RAI* responds to changes in the decentralization salience in the legislature is because *Self Rule* does.[19]

The results of the ECMs do also imply something else that was not so easily observable in the LDV models. The passage of decentralization reforms does not seem to adjust immediately in response to changes in our main independent variable. The coefficients for the lags of *Decentr. Sal. Index (wbp)* are statistically significant whereas, though also positive, they are not for the first differences (i.e. increments). That means that the adjustment of decentralization tends to occur more in the long term than in the short term. Given that the coefficients for the main lagged independent variable are around .3, approximately .04 for the increments, and those for

[19] Recall that the Regional Authority Index (*RAI*) is an additive index on *Self Rule* and *Shared Rule*.

the lagged dependent variables are about -.18, the steady impact to the long term equilibrium is around .3.[20]

That makes sense because the average legislature life is higher than one year (over 3 years in our data), and thus parties can adopt decentralization reforms later than immediately after a new Parliament has been configured. Hence it seems that it takes a little while to pass bills aimed at decentralizing a country, but it is rather clear that the specific configuration of the legislature matters and helps understand when and why countries change decentralization levels.

Concluding Remarks

In this paper we have claimed that the game of politics underlies when and why countries decentralize. More specifically, we have argued that the configuration of the Parliament is a crucial determinant of decentralization levels, something that has been rather overlooked in previous research. The extent to which parties in legislatures want decentralization, along with their bargaining power, are here said to be important factors behind the implementation of reforms devolving (or subtracting) power to (from) regional entities. Likewise, we have also contended that a higher degree of polarization in the primary left-right dimension should further facilitate the ability of parties to close deals in the decentralization dimension.

To test the hypotheses deriving from our argument in 15 OECD parliamentary democracies, we have used Hooghe et al.'s (2008) measures of political decentralization and merged them with information coming from CMP data to account for parties' positions regarding decentralization and strength. After incorporating controls for structural determinants, the analyses have shown that, indeed, the potential influence of legislative parties' decentralization claims translates to actual decentralization reforms. Parliaments with a higher average decentralization salience are more prone to decentralize, but more importantly, the specific distribution of power among

[20] Own calculations based on Beck and Katz (2004): $\frac{0.04+0.3}{1-(-0.18)}=0.29$

parties makes a huge difference in this regard. Also in line with the hypotheses, evidence has been provided in support for the moderating effect of left-right polarization in the legislative.

All in all, we believe that forthcoming works wanting to identify the political determinants of decentralization should direct their attention to Parliaments. Here we have taken a step forward in this direction looking at their parties' preferences and bargaining power, but further efforts inquiring about other institutional characteristics of legislatures could certainly provide much insight in the study of when and why countries decentralize. All these steps do and will in fact follow Riker's (1969) old advice when he argued that in the study of federalism it is appropriate to focus on "the real forces in the political system".

References

Achen, C. H. 2000. ''Why Lagged Dependent Variables Can Supress the Explanatory Power of Other Independent Variables''. Presented at the Annual Meeting of Political Methodology, Los Angeles.

Alesina, A. and Spolaore, E. 2003. The Size of Nations. London: MIT Press.

Amat, F., Jurado, I. and León-Alfonso, S. 2009. "A political theory of decentralization dynamics", Juan March Institute Working Paper Series #248.

Arzaghi, M. and Henderson, V. 2005. "Why Countries are Fiscally Decentralizing". Journal of Public Economics 89(7): 1157-89.

Baron, D. and Ferejohn, J. 1989. "Bargaining in legislatures". American Political Science Review 83, 1181–1206.

Baron, D. and Diermeier, D. 2001. "Elections, Governments, and Parliaments in Proportional Representation Systems". Quarterly Journal of Economics 116.

Beck, N. and Katz, J. 2004. "Time-Series–Cross-Section Issues: Dynamics, 2004". Manuscript.

Beck, N. and Katz, J. 2009. "Modeling dynamics in time-series-cross-section political economy data", California Institute of Technology, Social Science Working Paper 1304.

Benoit, K. and Laver, M. 2007. “Estimating Party Policy Positions: Comparing Expert Surveys and Hand-Coded Content Analysis.” Electoral Studies 26: 90–107.

Beramendi, P. 2007a. “Inequality and the territorial fragmentation of solidarity.” International Organization 61: 783-820.

Beramendi, P. 2007b. “Federalism” in Carles Boix and Susan Stokes (eds) Handbook of Comparative Politics, Oxford University Press.

Beramendi P. 2009. “Representation and endogenous fiscal structures”, Manuscript, Duke University.

Brancati, D. 2006. “Decentralization: Fueling the Fire or Dampening the Flames of Ethnic Conflict and Secessionism?”. International Organization 60(3): 651–685.

Brancati, D. 2008. “The Origins and Strength of Regional Parties”. British Journal of Political Science, 38(1): 135-159.

Bolton, P. and Roland, G. 1997. “The Breakup of Nations: a Political Economy Analysis.” Quarterly Journal of Economics 112: 1057-1090.

Budge, I., Klingeman, H.-D., Volkens, A., Bara, J., and Tanenbaum, E. 2001. Mapping Policy Preferences: Estimates for Parties, Electors and Governments 1945-1998. Oxford: Oxford University Press.

Chhibber, P. and Kollman, K. 2004. The Formation of National Party Systems: Federalism and Party Competition in Canada, Great Britain, India, and the United States. New Jersey: Princeton University Press.

Caramani, D. 2004. The nationalization of politics. The formation of national electorates and party systems in Western Europe, Cambridge: Cambridge University Press.

Davidson, J., Hendry, D., Srba, F., and Yeo, S. 1978. “Econometric Modelling of the Aggregate Time-Series Relationship Between Consumers’ Expenditures and Income in the United Kingdom”. Economic Journal 88: 661–92.

Diermeier, D. nd Merlo, A. 2004. “An Empirical Investigation of Coalitional Bargaining Procedures.” Journal of Public Economics 88(3-4): 783-97.

Dixit, A. and Londregan, J. 1996. “The Determinants of Success of Special Interests in Redistributive Politics,” Journal of Politics 58, 4: 1132-55.

Dragu, T. and Rodden, J. 2010. “Representation and regional redistribution in federations”. Documents de treball IEB, n. 16.

Enikolopov, R. and Zhuravskaya, E. 2007. “Decentralization and Political Institutions”. Journal of Public Economics, Vol 91, Issues 11-12, December 2007, Pages 2261-2290.

Erk, J. and Koning, E. 2010. “New structuralism and institutional change: Federalism between centralization and decentralization”. Comparative Political Studies.

Erk, J. and Swenden, W. (2009). “The new wave of federalism studies”, in Erk and Swenden (eds.) New Directions Federalism Studies, European Consortium for Political Research (ECPR) series, London: Routledge.

Ezcurra, R. and Pascual, P. 2008. “Fiscal decentralization and regional disparities: evidence from several European Union countries”. Environment and Planning A 40: 1185-1201.

Filippov, M., Ordeshook, P. and Shvetsova, O. 2004. “Designing federalism: a theory of self-sustainable federal institutions”. Cambridge, Cambridge University Press.

Hooghe, L. and Marks, G. 2001. Multi-Level Governance and European Integration. Lanham, MD: Rowman & Littlefield.

Hooghe, L. , Marks, G. and Schakel, A. 2008. “Regional Authority in 42 Democracies, 1950–2006: A Measure and Five Hypotheses," double special issue, Regional and Federal Studies, 18, 2-3: 111-302.

Keele, L. and Kelly, N.J. 2006. “Dynamic Models for Dynamic Theories: The Ins and Outs of LDVs”. Political Analysis. 14:2, 186-205.

Lago-Peñas, I. and Lago-Peñas, S. 2009. “Does the nationalization of party systems affect the composition of public spending?”. Economics of Governance 10: 85-98.

Lane, J.-E. and Ersson, S. 1999. Politics and Society in Western Europe. London: Sage Publications.

Lasswell, H. 1936. Politics: Who Gets What, When, How. New York, London: McGraw-Hill.

Laver, M. and Schofield, N. 1990. Multiparty government. Oxford: Oxford University Press.

León-Alfonso, S. 2007. “The Political Economy of Fiscal Decentralization. Bringing Politics to the Study of Intergovernmental Transfers”. Barcelona: Institut d’Estudis Autonòmics.

Lessman, C. 2009. “Fiscal decentralization and regional disparity: evidence from cross-section and panel data”. Environment and Planning A 41: 2455-2473.

Lijphart, A. 1999. Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries. New Haven: Yale University Press.

Müller, W. and Strom, K. 2000. Coalition Governments in Western Europe. Oxford: Oxford University Press.

Panizza, U. 1999. “On the determinants of fiscal centralisation: theory and evidence”. Journal of Public Economics 74(1).

Persson, T. and Tabellini, G. 1996. “Federal Fiscal Constitutions: Risk Sharing and Redistribution.” Journal of Political Economy 104, 5: 979-1009.

Plümper, T. and Troeger, V.E. 2004. “The estimation of time-invariant variables in panel analyses with unit fixed effects”. Social Science Research Network, Working Paper.

Plümper, T. and Troeger, V. 2007. Efficient Estimation of Time-Invariant and Rarely Changing Variables in Panel Data Analysis with Unit Effects, Political Analysis 15(2): 124-139.

Riker, W.H. 1964. Federalism: Origin, Operation, Significance. Boston: Little Brown and Co.

Riker, W. H. 1969. “Six Books in Search of a Subject or Does Federalism Exist and Does It Matter?”. Comparative Politics, Vol.2.

Rodden, J. 2002. “Strength in Numbers? Representation and Redistribution in the European Union.” European Union Politics 3, 2: 151-175.

Rodden, J. and Wibbels, E. 2002. “Beyond the Fiction of Federalism: Macroeconomic Management in Multitiered Systems”. World Politics - Volume 54, Number 4, July 2002, pp. 494-531.

Rodden, J. and Wilkinson, S. 2004. “The Shifting Political Economy of Redistribution in the Indian Federation”. Unpublished Manuscript.

Roeder, P. G. 2001. “Ethnolinguistic Fractionalization (ELF) Indices, 1961 and 1985”. http//:weber. ucsd.edu/~proeder/elf.htm.

Schakel, A. H. 2008. “Validation of the Regional Authority Index”. Regional and Federal Studies 18 (2-3): 143-166.

Stegarescu, D. 2004. “Public Sector Decentralization: Measurement Concepts and Recent International Trends”. ZEW Discussion Paper No. 04–74.

Swenden, W. and Maddens, B. 2008. Territorial Party Politics in Western Europe. Basingstoke: Palgrave Macmillan.

Treisman, D. 2000. "Decentralization and Inflation: Commitment, Collective Action, or Continuity?” American Political Science Review 94: 837-858.

Treisman, D. 2002. “Defining and Measuring Decentralization: A Global Perspective.” Manuscript.

Treisman, D. 2006. “Explaining fiscal decentralization: geography, colonial history, economic development and political institutions”. Journal of Commonwealth and Comparative Politics 44:3.

Treisman, D. 2007. The Architecture of Government: Rethinking Political Decentralisation. Cambridge University Press, Cambridge, UK.

Wibbels, E. 2006. “Madison in Baghdad?: Decentralization and federalism in Comparative Politics”. Annual Review of Political Science 9: 165-188.

Woldendorp, J., Keman, H., and Budge, I. 2000. Party Government in 28 Democracies (1945-1998): Composition – Duration – Personnel. Dordrecht: Kluwer Academic Publishers.

Appendix

$$
\begin{aligned}
\Delta Decentralization_{i,t} = {} & \beta_1 \Delta Decentralization\ Salience_{i,t} \\
& + \beta_2 \Delta (Log\ of) GDPperCap_{i,t} \\
& + \beta_3 \Delta Interregenional\ Inequality_{i,t} \\
& - \phi \left(\begin{array}{l} Decentralization_{i,t-1} \\ - \left(\begin{array}{l} \gamma_1 Decentralization\ Salience_{i,t-1} \\ + \gamma_2 (Log\ of) GDPperCap_{i,t-1} \\ + \gamma_3 Interregenional\ Inequality_{i,t-1} \end{array} \right) \end{array} \right) \\
& + \alpha_i \\
& + \nu_{i,t}
\end{aligned}
\tag{4}
$$

$$
\begin{aligned}
\Delta Decentralization_{i,t} = {} & \beta_1 \Delta Decentralization\ Salience_{i,t} \\
& + \beta_2 \Delta (Log\ of) GDPperCap_{i,t} \\
& + \beta_3 \Delta Interregenional\ Inequality_{i,t} \\
& - \phi \left(\begin{array}{l} Decentralization_{i,t-1} \\ - \left(\begin{array}{l} \gamma_1 Decentralization\ Salience_{i,t-1} \\ + \gamma_2 (Log\ of) GDPperCap_{i,t-1} \\ + \gamma_3 Interregenional\ Inequality_{i,t-1} \end{array} \right) \end{array} \right) \\
& + \zeta_1 EthnoLinguistic\ Fractionalization_i \\
& + \zeta_2 Federation_i \\
& + \zeta_3 \left(Log\ of \right) Area_i \\
& + \zeta_4 Democratic\ Traditions_i \\
& + \eta_i \\
& + \alpha \\
& + \nu_{i,t}
\end{aligned}
\tag{5}
$$

Table 5: Fixed Effects ECM Models (DV: *RAI*)

	Decentralization Salience (in Parliament)						Decentralization Salience Index (weighted by power)					
	Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)		Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)	
RAI (lag)	-0.166***	-0.192**	-0.166***	-0.192**	-0.141***	-0.223***	-0.166***	-0.189***	-0.166***	-0.189***	-0.139***	-0.216***
	(0.038)	(0.063)	(0.036)	(0.077)	(0.043)	(0.081)	(0.037)	(0.053)	(0.035)	(0.068)	(0.041)	(0.071)
Decentr. Sal. (in Parl.) (diff)	0.075	-0.015	0.075	-0.015	0.121	-0.134						
	(0.100)	(0.079)	(0.110)	(0.217)	(0.107)	(0.224)						
Decentr. Sal. (in Parl.) (lag)	0.071	0.165	0.071	0.165	0.124	0.118						
	(0.109)	(0.161)	(0.072)	(0.113)	(0.082)	(0.119)						
Decentr. Sal. Index (wbp) (diff)							0.043	0.046	0.043	0.046	0.098	0.016
							(0.068)	(0.078)	(0.084)	(0.144)	(0.095)	(0.164)
Decentr. Sal. Index (wbp) (lag)							0.189*	0.329**	0.189***	0.329***	0.236***	0.298**
							(0.105)	(0.122)	(0.061)	(0.111)	(0.071)	(0.128)
(Log of) GDP per cap. (diff)		2.071		2.071		0.399		3.073		3.073		0.380
		(3.043)		(4.614)		(2.580)		(2.711)		(4.443)		(2.567)
(Log of) GDP per cap. (lag)		0.956		0.956		0.354		0.496		0.496		0.341
		(0.986)		(1.074)		(0.384)		(1.022)		(1.076)		(0.385)
Interregional Inequality (diff)		1.048		1.048		-2.097		-1.457		-1.457		-5.229
		(2.953)		(9.084)		(9.076)		(2.876)		(8.487)		(8.582)
Interregional Inequality (lag)		-3.602		-3.602		-2.848		-2.958		-2.958		-2.883
		(2.118)		(2.728)		(2.474)		(2.360)		(2.619)		(2.453)
Ethno-Linguistic Fract. (lag)					0.429*	1.816***					0.415*	1.680***
					(0.234)	(0.403)					(0.236)	(0.393)
Federation (lag)					-0.089***	-0.153***					-0.068**	-0.134***
					(0.032)	(0.040)					(0.032)	(0.038)
(Log of) Area (lag)					1.922***	2.816***					1.928***	2.808***
					(0.109)	(0.206)					(0.104)	(0.199)
Democratic Traditions (lag)					0.044*	0.092***					0.051**	0.119***
					(0.024)	(0.031)					(0.020)	(0.022)
η					1.000***	1.000***					1.000***	1.000***
					(0.082)	(0.086)					(0.082)	(0.093)
Constant	2.820***	-8.221	2.820***	-8.221	1.983***	-0.011	3.272***	-3.984	3.272***	-3.984	1.635***	-0.409
	(0.659)	(9.823)	(0.645)	(10.067)	(0.408)	(0.684)	(0.885)	(10.074)	(0.595)	(10.166)	(0.406)	(0.641)
Observations	438	242	438	242	372	242	438	242	438	242	372	242
R-squared	0.222	0.240	0.222	0.240	0.131	0.159	0.243	0.287	0.243	0.287	0.166	0.200
Number of countries	15	13	15	13	15	13	15	13	15	13	15	13

Standard errors in parentheses; Estimates for country and year dummies not shown. *** p<0.01, ** p<0.05, * p<0.1

Table 6: Fixed Effects ECM Models (DV: *Self Rule*)

	Decentralization Salience (in Parliament)						Decentralization Salience Index (weighted by power)					
	Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)		Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)	
Self Rule (lag)	-0.139***	-0.181**	-0.139***	-0.181**	-0.110***	-0.196**	-0.137***	-0.175***	-0.137***	-0.175**	-0.109***	-0.187**
	(0.043)	(0.060)	(0.034)	(0.081)	(0.041)	(0.086)	(0.042)	(0.049)	(0.032)	(0.072)	(0.038)	(0.075)
Decentr. Sal. (in Parl.) (diff)	0.109	0.015	0.109	0.015	0.156*	-0.081						
	(0.092)	(0.079)	(0.090)	(0.194)	(0.091)	(0.205)						
Decentr. Sal. (in Parl.) (lag)	0.105	0.164	0.105*	0.164	0.152**	0.174						
	(0.109)	(0.158)	(0.060)	(0.106)	(0.069)	(0.112)						
Decentr. Sal. Index (wbp) (diff)							0.067	0.053	0.067	0.053	0.122	0.050
							(0.067)	(0.072)	(0.076)	(0.141)	(0.090)	(0.161)
Decentr. Sal. Index (wbp) (lag)							0.208*	0.306**	0.208***	0.306***	0.247***	0.326***
							(0.100)	(0.118)	(0.056)	(0.110)	(0.067)	(0.124)
(Log of) GDP per cap. (diff)		1.820		1.820		0.639		2.724		2.724		0.573
		(2.606)		(4.402)		(2.390)		(2.154)		(4.205)		(2.307)
(Log of) GDP per cap. (lag)		0.907		0.907		0.479		0.440		0.440		0.467
		(0.895)		(1.060)		(0.344)		(0.923)		(1.063)		(0.344)
Interregional Inequality (diff)		-1.660		-1.660		-4.021		-3.860		-3.860		-7.241
		(4.403)		(8.299)		(8.291)		(4.121)		(7.774)		(7.805)
Interregional Inequality (lag)		-4.858		-4.858**		-4.339**		-4.161		-4.161*		-4.345**
		(2.990)		(2.336)		(1.992)		(3.200)		(2.189)		(1.863)
Ethno-Linguistic Fract. (lag)					0.042	1.137***					0.083	1.092***
					(0.185)	(0.334)					(0.188)	(0.323)
Federation (lag)					0.005	-0.025					0.023	-0.012
					(0.022)	(0.027)					(0.023)	(0.025)
(Log of) Area (lag)					0.849***	1.447***					0.863***	1.453***
					(0.102)	(0.198)					(0.098)	(0.192)
Democratic Traditions (lag)					-0.007	0.000					-0.005	0.020
					(0.022)	(0.029)					(0.019)	(0.024)
η					1.000***	1.000***					1.000***	1.000***
					(0.136)	(0.105)					(0.143)	(0.118)
Constant	1.735***	-7.545	1.735***	-7.545	1.019***	-1.910***	2.025**	-3.248	2.025***	-3.248	0.738**	-2.214***
	(0.543)	(8.821)	(0.395)	(9.957)	(0.351)	(0.624)	(0.802)	(9.006)	(0.379)	(10.051)	(0.328)	(0.533)
Observations	438	242	438	242	372	242	438	242	438	242	372	242
R-squared	0.197	0.248	0.197	0.248	0.128	0.159	0.224	0.298	0.224	0.298	0.172	0.215
Number of countries	15	13	15	13	15	13	15	13	15	13	15	13

Standard errors in parentheses; Estimates for country and year dummies not shown.

Table 7: Fixed Effects ECM Models (DV: *SharedRule*)

	Decentralization Salience (in Parliament)						Decentralization Salience Index (weighted by power)					
	Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)		Fixed Effects (clustered s.e.)		Fixed Effects (pcse)		FE Vector Decomp. (pcse)	
Shared Rule (lag)	-0.410	-0.150***	-0.410***	-0.150	-0.149	-0.167	-0.410	-0.154***	-0.410***	-0.154	-0.149	-0.168
	(0.243)	(0.009)	(0.080)	(0.165)	(0.111)	(0.164)	(0.243)	(0.007)	(0.080)	(0.165)	(0.111)	(0.164)
Decentr. Sal. (in Parl.) (diff)	0.003	-0.042	0.003	-0.042	-0.029	-0.058						
	(0.021)	(0.045)	(0.060)	(0.114)	(0.049)	(0.106)						
Decentr. Sal. (in Parl.) (lag)	-0.012	-0.006	-0.012	-0.006	-0.030	-0.057						
	(0.024)	(0.035)	(0.039)	(0.045)	(0.038)	(0.048)						
Decentr. Sal. Index (wbp) (diff)							0.000	-0.004	0.000	-0.004	-0.013	-0.025
							(0.012)	(0.020)	(0.032)	(0.041)	(0.022)	(0.034)
Decentr. Sal. Index (wbp) (lag)							-0.007	0.022	-0.007	0.022	-0.010	-0.022
							(0.021)	(0.020)	(0.022)	(0.022)	(0.019)	(0.024)
(Log of) GDP per cap. (diff)		0.102		0.102		-0.430		0.128		0.128		-0.388
		(1.234)		(1.214)		(0.754)		(1.253)		(1.218)		(0.776)
(Log of) GDP per cap. (lag)		-0.041		-0.041		-0.188		-0.050		-0.050		-0.196
		(0.173)		(0.192)		(0.167)		(0.180)		(0.188)		(0.160)
Interregional Inequality (diff)		3.214		3.214		2.701		3.042		3.042		2.760
		(2.772)		(4.496)		(4.423)		(2.810)		(4.450)		(4.404)
Interregional Inequality (lag)		1.480		1.480		1.909		1.521		1.521		1.916
		(1.448)		(1.781)		(1.861)		(1.440)		(1.788)		(1.864)
Ethno-Linguistic Fract. (lag)					0.374***	0.303					0.322**	0.222
					(0.126)	(0.261)					(0.127)	(0.262)
Federation (lag)					-0.108***	-0.083*					-0.107***	-0.084*
					(0.024)	(0.045)					(0.024)	(0.045)
(Log of) Area (lag)					0.894***	0.870***					0.905***	0.884***
					(0.040)	(0.056)					(0.040)	(0.056)
Democratic Traditions (lag)					0.051***	0.065***					0.056***	0.077***
					(0.006)	(0.009)					(0.006)	(0.009)
η					1.000***	1.000***					1.000***	1.000***
					(0.017)	(0.058)					(0.017)	(0.056)
Constant	2.244	0.231	2.244***	0.231	0.903***	1.947***	2.245	0.152	2.245***	0.152	0.847***	1.943***
	(1.308)	(1.584)	(0.434)	(1.788)	(0.226)	(0.431)	(1.301)	(1.533)	(0.431)	(1.595)	(0.224)	(0.425)
Observations	438	242	438	242	372	242	438	242	438	242	372	242
R-squared	0.367	0.170	0.367	0.170	0.074	0.103	0.367	0.171	0.367	0.171	0.072	0.099
Number of countries	15	13	15	13	15	13	15	13	15	13	15	13

Standard errors in parentheses; Estimates for country and year dummies not shown. *** p<0.01, ** p<0.05, * p<0.1