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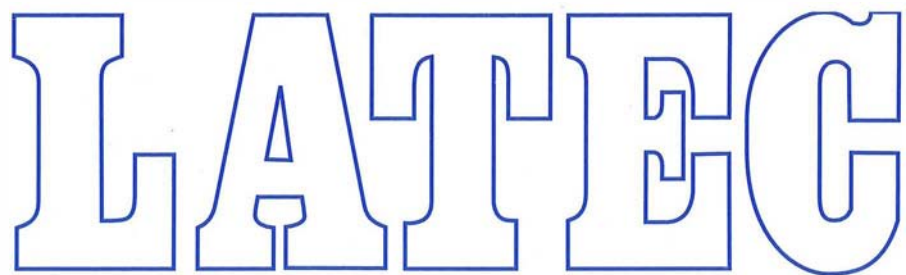
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# **Vertical Competition in a Unitary State**

by

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## **Abstract**

The paper is concerned with what Albert Breton, in his theory of competitive federalism has called vertical competition, that is, competition between governments situated at different levels. However its setting is government systems that are unitary rather than federal and structured around three or four levels of government rather than the two often implicitly assumed. The paper tries to show that these characteristics may offer a partial solution to what is perhaps the major problem raised by vertical competition, that is, how winners in a vertical contest get protected against retaliation by the losers when the latter can change the rules (which are not constitutionally entrenched). In federations, the problem typically arises in the context of the relationship between the intermediate (provincial or state) level and the local one. In unitary systems, the relationship affected is the one between the central government and the intermediate level, whereas the competitive relationship between the intermediate and the local levels may find some protection as an effect of the central government playing the role of a monitor. As is illustrated by the decentralization experience in France, a lively vertical competition "at the bottom", between several subcentral tiers of government, may ensue.

**Keywords:** decentralization, federalism, unitary state, French case.

**Mots-clefs:** décentralisation, fédéralisme, Etat unitaire, cas français.

## 1. Introduction<sup>1</sup>

An important component of Albert Breton's analysis of competitive government (1987, 1996) is his theory of competition among governments located at different levels of jurisdiction. This type of competition, called vertical competition, is to be distinguished from the horizontal competition that takes place among governments situated at the same level. The latter is based on the well-known "voting with the feet" mechanism (extended to firms and factors) as well as on a less well-known "tournament" or "yardstick competition" mechanism in which (some) voters compare the performance of their own government with that of other jurisdictions situated on the same level and, when satisfied with the relative performance of the former, are more likely to vote for the incumbents at the next election (Salmon, 1987). Vertical competition is based on the second mechanism only. If A is a country and B a region of that country, and if the two governments provide at least some services that are comparable, voters in B compare the performance of B's government with that of A's.<sup>2</sup> If they are pleased with the performance of B's government more than with that of A's, this makes them somewhat more likely to vote for the incumbents at the next regional election, and at the same time somewhat less likely to vote for the incumbents at the national level.<sup>3</sup> Incentives are thus provided to office-holders at both levels.

There is no reason to doubt that horizontal competition based on comparative performance - for instance, performance competition between municipalities - is a mechanism which is at work in all kinds of governmental systems. By contrast, one

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<sup>1</sup> A first version of several sections of this paper was presented in October 1997 at a seminar on federalism organized by the University of Turin and Torino Incontra. I am grateful for the comments made on this occasion.

<sup>2</sup> As argued convincingly in Breton (1996), governments situated at different levels of jurisdiction always provide at least some goods and services that are identical or close substitutes, and thus comparable.

might be inclined to perceive the scope or relevance of vertical competition as being limited to the relationship between, say, the central governments of Canada, the United States, or Germany and the governments of these countries' provinces, states, or Länder, respectively - that is, to vertical relations within systems that have the two characteristics of being federal and structured around two tiers of government. Breton, however, insists that his theory of vertical competition is quite general. He clearly means it to be relevant also in the case of countries with regard to which neither assumption can be upheld, that is, countries whose governmental system is unitary and structured around more than two tiers. The analysis which follows is focussed on one such country, France. The theoretical objective is both to verify that vertical competition is not meaningless outside its more obviously appropriate federal habitat and to contribute to the exploration of the variety of forms that it can take depending on the institutional context.

Vertical competition raises a problem which is more serious in unitary systems than in federal ones. A major characteristic of unitary states is that there is no significant constitutional protection of the powers used by subcentral governments.<sup>4</sup> This raises the following problem. Suppose that A, the central government of a country, is entitled to define what B, a subcentral government, is allowed to do, including how much resources B can get. Government A may favor vertical competition between itself and government B for various reasons, for instance because that will enhance the efficiency of the country as a whole and hence A's relative position in the horizontal - yardstick or tournament - competition in which it is engaged with the governments of other countries (Salmon, 1987). However, there are necessarily limits to this benevolence. In particular,

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<sup>3</sup> From now on, A, B, and C will refer indistinctly to jurisdictions, governments of these jurisdiction, or office-holders in these governments.

if competition between A and B turns too clearly to the advantage of B, A will be tempted to nullify this advantage by limiting the powers and resources available to B. The federal solution - that is, some protection of B entrenched in a constitution that A alone cannot change - mitigates the problem where it applies but is unavailable here by assumption. The question, then, is whether other mechanisms, in general or in the case of unitary systems, protect the autonomy of junior governments and, with them, the stability of vertical competition.<sup>5</sup>

An apparently completely different (although in fact related) problem is created by the existence of more than two tiers of government, which entails a more complex set of inter-level relationships. Suppose that there are three tiers of government: central government (A), provincial governments (Bs) and municipal governments (Cs). To decide whether the system is federal or not, only the nature of the relationship between the first and the second level, that is, between A and Bs, is normally considered as relevant. When that relation is federal, in turn the relationship between Bs and Cs can be of either a federal or a unitary-state kind, but in most accounts of federalism, it is implicitly assumed to be of the latter.<sup>6</sup> Taken together, the two problems suggest that even when federal solutions protect vertical competition between the first two levels, they are unlikely to protect vertical competition all the way down to the lowest inter-level relationship. Whether this limitation is important depends on whether there are other means available to protect competition, and whether vertical competition is more relevant or intense when taking place towards the top or towards the bottom.

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<sup>4</sup> Whether there is such protection in all federal systems is not completely clear (Ordeshook, 1992, p. 167), but I will assume that, as a rule, there is.

<sup>5</sup> For Barry Weingast (1993, p. 290), "the essence of federalism is that it provides a viable system of political decentralization"- a formulation suggesting that the viability of decentralization without federalism is to say the least doubtful.

<sup>6</sup> In his oft-quoted definition of federalism, William Riker (1964, p. 11) refers to "*two* levels of governments [that] rule the same land" (my emphasis).

France is interesting in these respects because it has experienced in the early eighties a significant process of decentralization in favor of three levels of subnational government, followed at short distance - as a consequence of the European Single Act, that is, in the late eighties and early nineties - by the acceleration of a process of federalization common to all the member-countries of the European Community/Union. Contrary to other decentralizing processes, in particular those that have taken place or are contemplated in other European countries, decentralization in France, it must be stressed, remains strictly circumscribed within the limits of unitary systems. In respect of the internal structure of government, there is no significant tendency towards federalism. At the higher, European, level, this is in my opinion different. Thus we have a case of a multi-tier unitary state, albeit potentially one whose sovereignty is limited in some areas, as is the case of provinces or states in federations.

In Section 2, I describe a number of characteristics of the French case, in particular where they depart significantly from those observed in other countries engaged in a process of decentralization or devolution. This will allow me, in Section 3, to return with augmented institutional and factual baggage to the systemic problems of vertical competition in unitary states mentioned above. It will turn out that intergovernmental competition at the subnational level is important in this case. Section 4 is concerned with the interpretation of this kind of competition, in particular with the question of whether it should still be considered as vertical. Concluding remarks are formulated in Section 5.

## **2. Institutional characteristics of the French case**

The process of decentralization and regionalization which has taken place in France since 1982 may be considered as impressive relatively to that country's tradition

of centralism but certainly not compared to the transformations accomplished in Belgium and Spain, the devolution recently enacted in Britain (at least that concerning Scotland), or the changes contemplated in Italy. Let me note some of the characteristics of the French experience which should be kept in mind when attempting an interpretation.

### ***Motivation***

Two important motives often underlie transformations towards federalism, regionalization, or simply a more decentralized system. One is the existence of strong demands and traditions of an ethnic or linguistic kind. They are clearly essential in Spain and in Belgium, to a lesser degree in Britain. Another important motive in many countries is related to a phenomenon that can be labeled the "frustration of the rich" (that is, of the inhabitants of the most prosperous parts of the country). Such frustration seems very important in Italy and far from negligible in Belgium and Spain. From the perspective of the prosperous regions, there is a tendency to consider that the unitary state both hides their exploitation by the poorer regions - which are more or less consciously viewed as responsible for their fate - and follows a mode of governance that is ill-adapted to the most dynamic parts of the country. These feelings clearly underlie the attitudes of many in Northern Italy, and, in combination with the linguistic or ethnic motivation, also in the Flanders and in Catalonia. To both problems (ethnic demands and frustration of the rich), federalism (or, as a first step, increased regionalization) may be the only peaceful solution short of separatism and secession.

With the unimportant exception of Corsica, there has been no serious ethnic or linguistic pressure towards federalism or decentralization in France for some time. As to the frustration of the rich, this phenomenon is not relevant in France because the only

significantly richer part of the country, which is the one around Paris, has always been and still is favored rather than disfavored by the allocation of public funds.<sup>7</sup>

Thus the explanation of the decentralization which took place in 1982 must be sought elsewhere. It is particularly noteworthy in the context of a discussion of vertical competition like this one that the main motivation of the reform was of a purely systemic kind, involving the concepts of democracy or participation and of efficiency. In 1981, when the Socialists came into power, some decentralization had already taken place (Schmidt, 1990; Ohnet, 1996) but France was still very centralized.<sup>8</sup> Two groups of people wanted that be changed substantially. Some of the proponents of decentralization wanted first of all more democracy in the form of increased people's "participation" and self-management. Their position was to a large extent the outcome of the extended discussions, involving many intellectuals and members of political parties, that had taken place over the last decades. Other proponents were more concerned with the inefficiencies of excessively centralized governance. Within the Socialist Party, in which many were still unfavorable to any form of decentralization, Michel Rocard and Gaston Defferre, two prominent but unorthodox party members, personified the two decentralizing tendencies. In the common platform of the Socialist and Communist parties and then in the agenda of the new majority, decentralization was also a kind of compensation conceded to Rocard and his friends, and perhaps to public opinion in general, for tolerating the major increase in state power that was then expected from the nationalization of many additional firms and sectors. The actual

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<sup>7</sup> Alsace is slightly better off, notably in terms of unemployment, than the rest of France and thus there may be in that small part of France some scope for feelings of frustration as well of course as ethnic specificity. So far though, ironically, frustration has found an outlet in the relatively high level of the vote in favor of the Front National, an extreme-right French nationalistic party, rather than in support to movements advocating more autonomy.

framing and implementation of decentralization, however, was not in the hands of Rocardians but in those of Defferre, whose main concern was one of efficiency.<sup>9</sup> The main thing in his view was to liberate local policy-making from the tutorship and intrusions of the state bureaucracy - both the bureaucracy located in the ministries in Paris and, led by the prefects and other representatives of the central state, the state bureaucracy located in the provinces. As he said retrospectively what really mattered to "citizens at the base" was that "now...the files that were formerly sent to Paris for a decision and came back one, two or three years later, can be dealt with on the spot within normal delays".<sup>10</sup>

### *The extent of decentralization*

The 1982 reform, completed by various laws and decrees enacted in the following years, made significant progress in both the directions of increased democracy at the subcentral level and of a reduction in the powers of the central state bureaucracy. The regions (about twenty) already existed (they had been created by the Vichy regime) but as entities of a purely administrative kind. The reform created a new tier of elected government at their level, endowed with proper legislative (the "regional council") and executive branches (led by the president of that council). The départements (about one hundred) already had a legislative branch in the form of a "general council" but the executive branch was in the hands of a prefect appointed by the central government. The reform substituted the president of the general council to the prefect as the head of the executive branch. It also transferred blocks of powers and

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<sup>8</sup> In the sixties and seventies, several sociologists and political scientists argued that local elected officials, especially those in charge of large cities, had much more power in reality than suggested by their rhetoric (see an excellent discussion and many references in Schmidt, 1990).

<sup>9</sup> Defferre was *Ministre de l'Intérieur et de la Décentralisation* (i.e., home affairs and decentralization) and at the same time mayor of Marseille (the second largest city in France), while the Prime Minister, Pierre Mauroy, was the mayor of another large city, Lille.

<sup>10</sup> *Le Monde*, 16 August 1985, quoted by Preteceille (1991, p. 145).

the corresponding financial and human resources to the regions and the départements, and abolished *a priori* administrative and financial control by the central government or its representatives over all three levels of subcentral government.

To give a few figures, central government now employs about three million people (if we include public hospitals but not the post), most of them located in the provinces. Subcentral government employs about half of that (Kerouanton, 1999). If we look into subcentral government, we observe that most people are employed by the communes, many less by the départements and very few by the regions. Overall spending by subcentral government is about 10 percent of GDP; regions account for about 10 percent of that, départements for about 30 percent, and communes for about 60 percent. The regions' strength is capital formation (see, e.g., Crédit Local de France - Dexia, 1998). Capital formation by subcentral government represents more than 2 percent of GDP and more than 70 percent of capital formation by government in general, and regions are responsible, either directly or through co-financing and grants, for a large part of that.

### ***Unitary-state characteristics***

In spite of the creation of democratic government at the level of regions and of a democratic executive branch at the level of départements, as well as of the granting of increased autonomy at the level of municipalities, the French experience remains strictly within the limits of a unitary system of government. It has in particular little to do with regionalization in the sense given that term in the context of Spain or of Italy.

Three characteristics make the French system of government strictly unitary. First, subnational government is only weakly "embedded" in the French constitution. Article 72, which refers both to "free administration" of the *collectivités territoriales* by elected councils, and to the law as the means of specifying this principle, has been

interpreted by the Constitutional Council as precluding any encroachment of the autonomy of these jurisdictions by acts of the executive branch of the central government, but not, to a significant degree, by laws voted by parliament (Roux, 1993).<sup>11</sup> In any case, the Constitution itself can be amended without consultation of the subcentral levels.

Second, regions have no legislative power.<sup>12</sup> Only the parliament in Paris can make laws. This is different not only from what is the case in federations such as Germany but also in so-called "regional states" such as Italy and Spain. The dividing line here is between strictly unitary states and all others, including regional states. With regard to constitutional power, however, the dividing line fluctuates somewhere between the unitary and the federal, with some "regional states" leaning this time toward the unitary state solution. Thus, in Italy the political organization and electoral rules pertaining to each level of government are set by central government laws. In Germany, the *Länder* have their own constitutions and shape relatively freely their relationship with lower levels of government. Spain is increasingly federal in this respect as in others, moving from competence of the central government alone to joint competence with increasing weight of the regional level. In France, all the rules governing the organization of the three subcentral levels of government, including notably electoral rules, are fixed by the national parliament exclusively. This characteristic will play a role in the argument developed in the next section.

Third, there is no hierarchy between the three levels of subcentral government.<sup>13</sup> Of course, in spatial terms or with regard to voting constituencies,

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<sup>11</sup> I am simplifying a bit. Whether the regional level is constitutionally on par with the other two subnational levels is a moot point (see Roux, 1993).

<sup>12</sup> Nor have *départements*, except in some very specific fields (hunting, etc.). Municipalities have authority over urban planning and zoning in particular.

<sup>13</sup> A law of January 1983 is particularly explicit in this respect (see Mabileau, 1997, p. 363).

communes are parts of départements and départements are parts of regions. But in terms of authority, regions are not above départements, and départements are not above communes. Each level has some powers specified in the decentralization laws voted by the parliament in Paris, as well (as already noted) as a general competence with regard to its own affairs.

### ***The European dimension***

That one should already treat Europe as the highest level of government in some areas seems clear to me from the following facts. First, from a purely legal point of view, there are the twin principles of supremacy of European law over national law and of "direct effect" (that is, of the direct effect of many European legal acts in purely national proceedings). As stressed by legal scholars such as Stephen Weatherill (1995, chapter 6), this creates a hierarchy of law of a kind which is not unlike that found in strictly federal systems. Second, since the implementation (in 1987) of the Single Act, the standard decision-making procedure in the European Council of Ministers is qualified majority voting instead of unanimity. As a consequence, European directives or regulations can now be imposed on one or several unwilling member-state governments. This deprives the widely shared interpretation of the EU mode of governance as a form of intergovernmental decision-making of one of its main justifications and makes it rather inappropriate, in my opinion, to characterize the current state of affairs. Third, also as a consequence of qualified majority voting, the annual flow of EU directives and regulations has increased enormously. As a matter of fact, European-made directives and regulations now typically outnumber the laws and regulations enacted by the governments of individual member-countries. Thus "in 1991, the European authorities in Brussels issued 1,564 directives and regulations as against 1,417 pieces of legislation (laws, ordinances, decrees) issued by Paris, so that by now

the Community introduces into the corpus of French Law more rules than the national authorities themselves” (Majone, 1996, p. 57).

### **3. How the systemic problem gets mitigated**

As noted in the Introduction, a link may be established between the two systemic questions of how decentralization gets protected in a unitary state and of what happens when more than two levels of government are assumed. To display that link, let me consider in turn a two-tier system and a three-tier one.

#### ***The two-tier case***

In addition to constitutional entrenchment, two mechanisms may operate in a two-tier system to prevent the central government from eroding the powers that it itself assigns to subcentral government. One mechanism is the representation of the lower level within the decision-making apparatus of the higher level. An example of that is the Bundesrat in Germany. If one is willing to admit, as I propose, that Europe is already partly federal, another illustration of the representation mechanism is the Council of Ministers in Brussels.<sup>14</sup> In both cases, even a minority of second-tier governments is generally enough to block an attempted encroachment of their powers. In France, the Senate considers itself to be the representative and protector of local government. Given the way senators are elected, this claim is justified to some extent. The problem is the French Senate's lack of legal powers. As a formal institution, the Senate can fulfill a protective role only weakly because, in most cases, a simple or qualified majority in the lower house (National Assembly) can overrule its decisions. This does not imply, however, that, as individuals, members of both houses (i.e., senators included) and of

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<sup>14</sup> It may not seem literally true, of course, that the European authorities in Brussels assign powers to the member-state governments. One may even feel that it is the other way round. However, it is a fact that in all the policy areas that have something to do with the Internal Market, the main issue is what regulatory powers should be left to national governments (see Breton and Salmon, 1999).

the executive branch (ministers) do not represent and protect subcentral government in an informal but highly effective way. This capacity and willingness to protect decentralized government are consequences of a practice known in France as *cumul des mandats*, to which I will return.

A second mechanism protecting decentralization or vertical competition in a unitary state is their monitoring by the electorate itself. If people are satisfied with, or attached to the current state of affairs, it may well prove highly perilous to the incumbent politicians in the national government to try and change it substantially. In other words, in this quasi-constitutional matter as well as in others of the same nature, voters, by the way of ordinary elections, exercise a power of monitoring or influence which is much more important than constitutional legal or economic scholarship typically acknowledges (Salmon, 1999).

### *The three-tier case*

If there are three tiers of government, however, a third additional mechanism may become available - more easily so, though, in a unitary state than in a federal one. Assume again that A is the central government of a country, B a provincial or regional government and C a municipality. I consider first the federal case. There is a federal constitution, B is protected from A, and A does not interfere in the relationship between B and C (that it should not interfere is a claim made in most accounts of federalism, see Brosio, 1994).<sup>15</sup> As a rule, the relationship between B and C will not be federal. As a consequence, the fairness of the competition between B and C will depend only on the

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<sup>15</sup> Increased regionalization in Italy, something rather close to federalism, would imply logically, in the views of several authors, that regions would become more or less responsible for organizing the funding of local government (see Giarda, 1995; Brosio, 1996; Piperno, 1996). Although Spain is more advanced than Italy toward quasi-federalism, in Spain "regional government has no exclusive power over local government", which has "a double dependence on both central and regional governments in terms of expenditure responsibilities and financial assistance" (Solé-Vilanova 1990, p. 333). Suarez-Pandiello (1996, p. 428), however, argues that this contradicts the logic of the system and should be changed.

"two additional mechanisms" mentioned above. This will tend to make it less protected than is, thanks to the federal constitution, the fairness of vertical competition between A and B. An illustration of the powerlessness that may ensue at the C level is the way the city of Toronto has been treated, recently, by the provincial government of Ontario. I think that the fear of such developments explains the reluctant attitude often displayed by large cities towards the perspective of regionalization or federalization (for Italy, see Piperno, 1996).

Now, suppose that the relationship between A and B is of a unitary state nature. Then, A will be concerned with the relationship between B and C, and if A decides that this relationship should be competitive, it can make sure that it remains so.<sup>16</sup> Thus, in addition to the two supplementary mechanisms mentioned above we now have, with regard to what happens between the two subcentral levels, a third mechanism, which is the monitoring of subcentral competition by the central government.

In the case of France, as already noted, each level of subcentral government is completely independent from the other two, whereas none of the three is independent from the central government in Paris. Given the decision by the central government to decentralize, this mutual independence will allow competition to be very active between the three levels of subcentral government and relatively limited between the central level and subcentral government as a whole.<sup>17</sup> With sufficient decentralization, the net effect could even be more competition than if the system were federal. More intense competition at the bottom would compensate for weaker competition at the top. This

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<sup>16</sup> Indeed, because competition between B and C prevents any one of the two subcentral governments from becoming too strong a rival to itself, A may well have a direct, selfish, interest in maintaining the competition.

<sup>17</sup> That inter-level competition at the subcentral level was a conscious objective of Deferre seems clear from his presentation of the reform to the parliament: "Les municipalités, les conseils généraux et les conseils régionaux...créeront par leur action concurrente et stimulante les conditions d'un nouveau développement économique, social et culturel de la France" (cited by Mabileau, 1997, p. 363).

discussion raises the question of whether, in such settings, both the distinction between subcentral levels and the one between horizontal and vertical competition remain relevant. Before addressing that question, let me elaborate on the way subcentral government as a whole has so far been protected in a unitary country like France.

*The "cumul des mandats".*

As already indicated, a major protective mechanism is the one stemming from the *cumul des mandats*, a practice which has been a major characteristic of the French institutional system for a long time, even though it might be currently on the point of disappearing. The mechanism is simple. Most decision-makers who count at the national level are also important decision-makers at the subnational ones and vice versa. Thus mayors of large cities and presidents of regional or general councils are typically also members of one or the other of the two houses of parliament in Paris, whereas about half the members of parliament also have important functions in local, departmental or regional government. In 1997, the new Prime Minister asked his ministers to cease being mayors or presidents of regional or general councils. The offices of minister and of member of parliament being in general less secure than that, say, of mayor, the ministers complied but made sure to keep an eye on, or some relations with the collaborators or friends who replaced them, for an indeterminate but possibly short time, in the subcentral governments.

It cannot be denied that the "cumul des mandats" is a peculiar habit, which has many ill-effects, some of them clearly anti-competitive.<sup>18</sup> But it also has the effect of providing constitutionally unprotected subcentral governments a means to resist attempts by the central government, including its powerful bureaucracy, to erode their

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<sup>18</sup> See, e.g., Schmidt (1990), Mény (1992, Chapter 2). Some evidence that voters themselves have mixed feelings about the *cumul* is provided by Olivier (1998).

autonomy. A prohibition of the "cumul des mandats" is currently on the legislative agenda. If decided, and if not replaced by some other form of protection of subcentral government, this well-meaning, apparently pro-competitive, reform could well prove counter-productive.

#### **4. The nature of subnational competition.**

In addition to being completely mutually independent, the governments of French communes, départements and regions have four characteristics that are important from a systemic perspective. First, their major source of finance is made up of taxes whose rates they can fix almost completely freely (see Gilbert and Guengant, 1991, 2<sup>nd</sup> ed. 1998). To give some figures, subcentral taxation represented about 4.5 percent of GDP in 1994 - as in Spain, but much more than in Italy (2 percent) and Britain (1.5 percent).<sup>19</sup> This is complemented, mainly on a non-discretionary basis, by global grants from the central government, and also by borrowing.<sup>20</sup> Second, as, noted, subcentral governments have no legislative power and very little rule-making power in general. Third, in many basic sectors (health, education, justice, police, tax collection, etc.), the central government directly implements its policies, with the help of its own employees and not through the employees of subcentral government. This means that in France the central government can afford to be much more relaxed about the behavior of subcentral government than it is in systems such as the British or German ones in which it depends on subcentral government for the implementation of its own decisions. It means also that the equalization issue is much less important. Fourth, the distribution of powers between the three levels is extremely flexible. Powers specific to each level are allocated by the decentralization laws, but they are not binding because any

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<sup>19</sup> I.N.S.E.E., *Tableaux de l'économie française 1997-1998*, p. 123.

<sup>20</sup> Earmarked and targeted grants represent only about 10 percent of grants (Marcou, 1994, p. 71).

subcentral government can also invoke the general principle of free administration or general competence already referred to. To borrow a commentator's (somewhat excessive) words, "the unwritten rule of French local government" is "that each level of government may intervene in any domain it wishes, irrespective of specific powers accorded to it" (Le Galès, 1995, p. 86). To these characteristics, one must add an observation concerning the general setting in which governments at all levels operate: over the last decade, this setting has been drastically changed by deregulation, internationalization, and transfers of responsibilities from state to market.

Taken together, these characteristics have two consequences. First, subcentral governments now act not only by collecting taxes and producing goods and services but also, most significantly, by engaging into all kinds of contracting and financing. In doing this they increasingly behave like private institutions (with which, incidentally, they often compete). Subcentral governments contract with each other at the same level of jurisdiction to create new institutions: various forms of intercommunal entities at the level of metropolitan areas to deliver services, interregional groupings (often transnational) to lobby Brussels or canvass China, etc. They contract with governments at other levels of jurisdiction, including the central government in Paris and the Commission in Brussels, to co-finance all sorts of projects. They contract with firms to improve rail or air transportation, to create industrial or science parks, to promote tourism and attract residents and firms, to borrow and invest funds, and of course to construct and repair buildings and roads and to provide many goods and services. They provide subsidies to induce other jurisdictions, associations, private firms, and individuals to engage into actions that they consider useful, from the creation of new firms or the employment of young people to participation in costly nautical contests.

The second consequence of this quasi-market setting is that competition often involves indistinctly governments located at different levels of jurisdiction. For instance, because unemployment and deprivation are major concerns of many voters, new schemes addressing these problems are experimented at all levels of government. People can then compare what is being done by the city of Paris with what is being done by the regional council of Auvergne or the département of the Hauts-de-Seine: three levels of government but no hierarchical relationship.<sup>21</sup> Thus, at the limit, whether we should keep referring to vertical competition with regard to intergovernmental competition at the subcentral level is not that clear.

In fact, we should distinguish two cases. In the foregoing example, the city is not included in the département and the département is not included in the region. In this case, competition should probably be assimilated to horizontal rather than to vertical competition. For obvious reasons, however, comparisons between governments situated at different levels of jurisdiction are likely to be more frequent and significant when there is a relationship of inclusion between the governments concerned. If this is so, the fact that, in spatial and electoral terms, a jurisdiction C is included or encompassed in a jurisdiction B is not without effect on the nature of the relationship between the two governments, and this is true even when B has no authority over C. In other words, competition between B and C will be different from horizontal competition between C and another government situated at the same level of jurisdiction - or, more generally, any government C' not involved in an inclusion relationship with C. In the case of horizontal competition, the voters of jurisdiction C have nothing to do with government C'. In particular, they cannot increase or reduce support to C'. The only

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<sup>21</sup> And, incidentally, as presidents of the respective councils, three prominent politicians, Jacques Chirac (until recently), Valéry Giscard d'Estaing and Charles Pasqua.

political markets are the ones between the incumbents and the opposition in each of the two jurisdictions. The tournament or yardstick competition between governments C and C' is of a purely informational kind. However, in the case of competition between governments B and C (jurisdiction C being included in jurisdiction B), in addition to being informational, competition is for electoral support. The voters of C are also the voters of B and change the distribution of their support to the two governments as a consequence of changes in their relative assessment. Competition, beyond rank-order, is also for the patronage of the same constituency. This becomes particularly clear in the case of an open conflict between C and B. Then, voters can play the role of arbiters and their vote (or expected vote) compel one of the two governments to give in.

Whether that first difference caused by the existence of an inclusion relationship is really significant, only further research could tell. In any case, a second difference is probably more important. It concerns interjurisdictional spillovers. Voters and office-holders of C are not directly concerned with the opinions or feelings of voters or office-holders in the other jurisdictions included in B. This gives these office-holders an inducement to neglect the effects of their policies on these other jurisdictions. Politicians in office in B are in a different position. Their chances of winning the next election depend on assessments made by voters in all the lower-level jurisdictions included in B. Consequently, if policies adopted in C have spillover effects on the welfare of citizens in other parts of B, politicians in B will not disregard them in the same way as politicians in C are inclined to do (but may not do, see Breton and Salmon, 1999). This again changes the nature of competition between B and C and makes it different from horizontal competition.

## **5. Concluding remarks**

Because most commentators of decentralization in France have not read Breton, they are taken aback by what they perceive as the untidiness of decision-making at the level of subcentral government.<sup>22</sup> Once one has read Breton, instead of disorder one might be inclined to see competition and consider a large part of the discussion of the matter in France as mistaken. What is typically perceived as a set of problems (duplication of responsibilities; blurring of the distinctions between levels; spatial variation in priorities and in levels of taxation and borrowing; excessively innovative or unorthodox schemes, etc.) often illustrates instead essential aspects of what Breton calls intergovernmental competition. Thus, if one believes in the virtues of competition of that kind, there may be reasons to find something satisfactory in the present situation, in which a lively competition at the bottom is combined with monitoring rather than competition at the top.<sup>23</sup> A question then is: what are the perspectives for decentralization to be pushed further? To conclude this very tentative essay, let me consider three points.

First, although the process of decentralization that has taken place in France in the eighties is really impressive (Schmidt, 1990), one may find it still too limited or circumscribed. Another substantial transfer of responsibilities to regions, for instance in the areas of education, culture, or health, would not necessarily change the type of intergovernmental competition analyzed above. Of course, it would require that two important issues be tackled. One is how to combine the need to increase the resources available to regions and the need to safeguard their autonomy in matters of taxation (see Gilbert and Guengant, 1991, 2<sup>nd</sup> ed. 1998). The other is how to get more resource equalization at each level.<sup>24</sup>

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<sup>22</sup> For some collective volumes dedicated to an assessment and discussion of decentralization in France, see Conseil Régional de Picardie (1992); Gilbert and Delcamp (1993); Institut de la Décentralisation (1996).

<sup>23</sup> Among current problems whose seriousness cannot be denied, however, the two most prominent, perhaps, are the growth of expenditures at some of the levels, and corruption. I venture the view that both problems will prove to be transitory.

<sup>24</sup> Some equalization (more than generally thought), integrated in the general grant given by the central government, already exists at the level of communes, and a law of 1995 initiated its extension to the other

Second, should not decentralization be more strongly protected, perhaps constitutionally? The question is topical because the practice of "cumul des mandats" is endangered.<sup>25</sup> Third, the two preceding points might suggest a move toward something like regionalism, federalism or quasi-federalism. The question which is the most debatable in my opinion is whether regions should be given authority over lower-level jurisdictions. Here, one must distinguish between départements and communes. There are reasons to think that, inasmuch as it is generally considered that there are too many levels of jurisdiction, the level of départements is the one which is the most likely to be sacrificed.<sup>26</sup> To give regions authority over communes or over their intercommunal creatures is another matter. Large cities are currently very powerful, prestigious and autonomous entities. Subordinating them to regional governments would completely change the system and bring it close to a form of federalism. In France like in most other European countries, municipal government is the one that citizens like best. Would it be sufficiently protected, notably with regard to finance, if its well-being were entrusted to the regions? Another consideration to keep in mind is the building-up, already referred to, of the European level as quasi-federal highest level. When, or if, simultaneously, the regions of a country are becoming more or less like the states of a federation, the question arises of the conditions that must be satisfied for multi-level federalism to work, a question which is not given in the current debates the attention that it deserves.<sup>27</sup>

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levels. But more equalization would become indispensable if decentralization were extended to basic services such as education and health.

<sup>25</sup> I have already noted the possibility that voters themselves could monitor competition between levels. An encouraging indication is some evidence from surveys that voters trust more willingly subcentral than central government (see, e.g., Lancelot, 1992).

<sup>26</sup> As argued elsewhere (Salmon 1993), a slow process of transfer of powers from the départements to the other levels, leading ultimately to the département level becoming insignificant, is probably in the order of things. Among various reasons, départements are increasingly challenged by the contractual building up of intercommunal institutions. To give regions some authority over départements, although politically very difficult, might be justified in this context.

<sup>27</sup> Except, under the concept of the "Europe des régions", when the level whose waning is announced is that of the national governments, a perspective which I do not find plausible.

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