"The basic picture of the federal government you should have in mind is that it's essentially a huge insurance company with an army."

- Paul Krugman

Introduction

The multinational state can sometimes seem like a difficult creature to love. Devoid of the blind patriotic devotion that the nation-state can command of its citizens almost as a matter of course, it must work harder to inspire loyalty, and never is this more clear than in the case of the minority nations that dwell within its midst. Yet, in spite of this occasional failure to ignite the passions of all, multinational political entities do seem to display a remarkable resilience to the extent that we might refer to them as an unavoidable empirical reality of the world we live in. The sheer fact

\(^1\) In *Politics in the Vernacular*, Kymlicka explains that “the main instrumental arguments for federation (economic markets and military security) have lost much of their force, it seems that we need to focus more on the intrinsic benefits of belonging to a federation – that is, the value of belonging to a country which contains national diversity” (2001: 117). As we will show, these arguments have not lost their force, they are rather taking for granted and that is why some, as Kymlicka, come to underestimate them. Furthermore, his argument does not bite, especially in Québec and Catalonia where the level of diversity is already high. Kymlicka’s mistake is due to his monolithic conception of nations. For more on this critique, see De Schutter 2011.
that there are many more self-proclaimed nations in the world than could be housed in feasible nation-states (Gellner 1983) means that institutional solutions designed at facilitating and regulating inter-group cooperation will thus, of necessity, be an integral part of political engineering for some time to come.

Paradoxically though, we find that juxtaposed to this inevitable longevity is an evident and growing threat to the stability of multinational federations. Long-standing plurinational states such as Belgium, Spain, the United Kingdom (UK) and Canada have all come under increasing pressure from sub-state national political actors and communities, who question the rationale and justification of multinational political entities.

One often neglected approach to these issues is the one that focuses on the inherent benefits of inter-group social cooperation and the efficiency gains which can be generated therein. As Joseph Heath has pointed out in relation to the debate over the status of Quebec within Canada:

“Federalists are arguing, in effect, that we [Canada] function more efficiently as a single country than we would as two partially conjoined nation-states (...) Efficiency is a value. And whether we realize it or not, it is the central value in Canadian society. It has largely displaced religion, ethnicity, and language as a source of public loyalty” (Heath 2001: xviii).

A similar line of argument is evident in the rhetoric now being employed by David Cameron in an attempt to convince the Scottish population not to opt out of the UK when consulted in 2014. One of his recent declarations seems to display an appreciation of the discourse of Canadian federalists: “Put simply: Britain works. Britain works well. Why break it?”

However, there seems to be a widespread misconception of the concept of efficiency and of the policy prescriptions that we can draw from it; and that across a very wide range on the political spectrum. On the one hand, left-wing – mainly liberal – philosophers have often revolved much more about recognition than traditional efficiency gains when trying to justify the appeal of multinational federations (Kymlicka 2001). On the other hand, right-wing theorists who have provided arguments in favour of federalism on efficiency grounds have been mainly economists, who saw federalism as a means to introduce a competition between political units (Tiebout 1956), mostly towards a decrease of statist intervention in the economy (Hayek 1948, Buchanan 1996). Their model was based on the assumption that governments would have to reduce their size and role in people’s lives as individuals and firms could shop around public-goods packages, or ‘vote with their feet’, as they would seek to settle where governments’ interferences (essentially

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through taxation) would be the lowest. In this way, so the model predicts, an equilibrium will be created as individuals and firms with different needs and preferences will settle in political sub-units that will maximize their preferences. Thus, following the economists who argue in favor of that model, federalism is a political means to promote economic efficiency, in its purely rational sense – which is true under the classical premise: “all other things being equal”.

However, this model is subject to a string of objections, but we will turn our attention now a serious problem that we shall call the ‘mobility-constraints’ objection. For that model to have traction in reality, not only that – as with the ‘invisible hand theorem’ in general – there must be no externalities, but there must be no constraints on mobility for firms and individuals: there must be perfect freedom of movement; not only political freedom, but absolute freedom (not only formal opportunities, but achievable opportunities). This objection is especially strong in the case of multinational polities where language and cultural barriers will tend to strengthen individuals’ – and even firms’ – attachment to their communities and/or narrow the range of opportunities that are effectively available to them. A monolingual French speaker in Quebec or a monolingual Dutch speaker in Flanders cannot decide as to ‘vote with his feet’ as she pleases. Although they are legally entitled to do so, such a person would not be able to achieve much in her new community until she acquires decent skills in a second language – which requires of course considerable investments. It is thus highly plausible that people will chose voice over exit to induce policy changes when they are not satisfied with actual public goods and services offers, especially if they identify with the dominant cultural and political culture within a given federated entity. The traditional model neglects these complexities, particularly acute in multinational contexts, and are therefore of limited use when one assesses the principles that should guide the distribution of competences and of the burdens and benefits of cooperation in MNF.

If one finds the objection plausible, then one might think that the value of efficiency and its correlated ‘public-economic’ model of governance are to be rejected altogether. After all, efficiency is not the only principle that political communities

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3 These models flawed as they are ideologically biased towards the right end of the political spectrum. They picture taxation as ‘political exploitation’ (Buchanan 1995) and commit themselves to the fallacy of the ‘government as a consumer’ (Heath 2009: chap. 4). What they do not admit, is that sometimes a public provision of goods and services is more efficient than a private distribution through the market. They overestimate the choices that people would have on a free market to purchase certain goods and services; and underestimate the options available through public provision (a democratic exercise of ‘voice’ might just as well induce changes in public policies which would promote efficiency).

4 A more nuanced variant of this model was made popular by Charles Tiebout (1956), who argued that sub-units – or municipalities – can be as efficient as private firms in providing goods and services. However, Tiebout’s theory is vulnerable to the same ‘constraints on mobility’ objection that one can raise against the ‘pure’ economic model.
value and other principles, such as justice, have already received a good deal of attention in political philosophy and have proven to be resilient in the literature. However, rejecting the principle of efficiency because it has been taking center stage in libertarian theories would be tantamount to throw away the baby with the bathwater. Philosophers have too often underestimated the normative strength of efficiency and overplayed the dichotomy between the market, as the locus of efficiency, and the state, as the agent of justice. As a result, philosophers are often lead into a misguiding picture of federalism as a means – not to promote efficiency but – to tackle inter-individual injustices that are the outcome of the market (often neglecting market failures along the way) and not so much collective disparities that stem from unequal market development across regions. The time is ripe for a normative theory that does not confront us neither with a false dilemma between efficiency and attachment to regional cultures, nor between efficiency and justice.

In this paper, I will start by suggesting that political philosophers have been too quick to play out the efficiency that drives the market and the imperatives of social justice that should drive political governance. Consequently, the dominant liberal paradigm revolves around a widespread but fundamentally misguided interpretation of the rationale and purpose of multinational social cooperation: regarding it in an exclusively, or primarily, redistributive and egalitarian light in which some groups are required to make substantial sacrifices for the benefit of others in the name of solidarity. Although I acknowledge the value of solidarity and the existence of pure redistributive mechanisms in political communities, I deplore that most philosophers’ moral discourse has downplayed the value of efficiency.

In the second section, I will argue that efficiency is a moral principle and that it has a strong normative appeal, especially in contexts of diversity. I will show that adopting efficiency as our normative principle to think of the role of the state in context of pluralism, as in MNF, allows us to bridge the gap between our philosophical discourse and that of political actors. Furthermore, I will argue that embracing Pareto-efficiency allows us to avoid the moral problems that other moral approaches encounter, especially as I will defend a non-utilitarian conception of efficiency. That will allow me to show that if one opts for the view that pictures federalism as an efficiency maximizing enterprise does not lead a libertarian conception of the state.

Finally, I will try to briefly sketch a possible connection between the principle of efficiency and republican theory, which offers a political alternative to the prevailing liberal view criticized in section 1. More specifically I will suggest that, at the collective level in federalism, the pursuit of the republican ideal of ‘non-domination’ is totally compatible with the pursuit of efficiency and that this view has historical credentials. The pursuit of efficiency can avoid paternalism and judgments about identity, without falling short of addressing recognition and justice issues.
1. Federal cooperation: The prevailing view

The image that is often conjured up when discussing social cooperation in multinational states is one in which redistributive practices loom large. Heavily influenced by the high visibility of inter-unit transfers and equalization mechanisms, this has led many thinkers to too readily accept an interpretive model of inter-group federal cooperation which places a firm emphasis upon their inherently progressive nature.

We might rephrase this, and say that the traditional view of multinational federalism seems to work upon the assumption that social cooperation entails burdens, and that these burdens should be understood in such a way as to imply ‘zero-sum’ outcomes: the gains of one group necessarily imply losses for another. Though of course, the identities of the ‘winners’ and ‘losers’ in this game of federal cooperation may be expected to alter or even invert over time, it is still an essential assumption, that at least one group will have to be sacrificing its own interest at any one time in the name of federal solidarity and equality. David Miller is one such theorist who seems to be operating under a passive acceptance of the redistributive model:

“Where a single state embraces two or more nationalities, the problem will not be one of implementing a system of distributive justice, but one of legitimating it in the eyes of the populace. What reasons, for example, could have been given to the economically prosperous Slovenes to make them agree to subsidize investments in Serbia or Montenegro under the Yugoslavian federation? Each community feels that it is entitled to the resources that its own members have created; it will agree to state transfers only if it has an assurance that it will not lose, overall, in relation to the other communities.” (1995: 84)

As this quote clearly shows, there is a trend amongst political philosophers to depict federal transfers as schemes in which there are net winners and loosers. For most liberal philosophers, especially nationalist ones, the justification problems in pluralist contexts are exacerbated by a lack of a common nationality, or so-called ‘common sympathies’, since at least John Stuart Mill. Of course, we can intuitively understand why it is reasonable to assume that large segments of any populations will have place more confidence in fellow co-nationals, and will thus be more readily to cooperate with them – as his also shown by a battery of experimental studies in the fields of psychology or economics. However, contemporary societies are not as homogeneous as traditional nationalism would like us to believe they are. We are bound to find as much difference between individuals in Quebec or Flanders as we are to find between citizens of Poland or Columbia. Even if some aggregate patterns of preferences formation can emerge in stateless nations, they will often be justifiable
on liberal grounds, as liberal authors such as Kymlicka have argued (1995). Therefore, the temptation to frame the problem in terms of a tension or a trade-off between recognition (or identity politics more widely) and redistribution in multinational contexts should be resisted.

Nationalist theories and those which focus on identity more generally are symptomatic of the widespread acceptance of the redistributive view, as they see identity issues as central to motivating people to cooperate into egalitarian ventures. Coming back to the redistributive view as such, I still have to argue that it is misleading from the beginning. That view has been very popular amongst philosophers who engaged with Rawls’ famous Theory of Justice (1971). Rawls’ ‘difference principle’ (e.g. that socio-economic equalities are acceptable only if they are to the benefits of the worse-offs) is designed to preserve the incentive structure provided by the market, which is to say not to restrain the maximization of efficiency, while attributing the state the task of equalizing the distribution of what he called ‘social primary goods’ (e.g. civil and political liberties, the social basis for self-esteem, and income and wealth). Thus, the market and the state follow two different logics. The former pursue what is of common interest: that society produces a maximum of goods. The latter pursue what is the object of a conflict of interest: a fair distribution of the goods that are produced.

Yet what this view obscures is that the state does not only redistribute, through a progressive tax system, but it is a major economical agent: it produces goods and offers services. Take the road system for example, which is public in many countries. If my thesis promoter goes to work by bike, still part of the income taxes that he pays are used to finance the creation and the maintenance of roads that big companies like Amazon use to deliver their products. Yet it would be awkward to say that it is a matter of justice that those who barely use the road system transfer money to those who do. The reason why it is the case is because a road system is an example of what is a natural monopoly. Therefore the state provides this public good because it is more efficient that if different private companies would do so. Many other examples could be given to illustrate this point and some others will be discussed below. The point here is that despite it is true that states spend on social assistance for those who would otherwise be condemned to live in conditions below what we find acceptable, that is still a very small part of government’s spending compared to infrastructures of travel and communication or public goods in the domains of health or education. The progressive-redistributive view has proven to be resilient in leftist circles and within political philosophy as well, but despite its intuitive and morally appealing character we should realize that the principles of equality and solidarity do not ground much of our institutions. Yet, very few of us would find a radical change in the way that they are organized to be morally acceptable.
2. The alternative view: Embracing the principle of efficiency

In this section, I will try to elucidate the alternative principle that I believe both to be more factually accurate and more normatively persuasive: that of efficiency. Before I can make my positive case however, that philosophers and federal advocates should adopt efficiency as a corner-stone of their arguments, it will first be useful to consider some of the reasons why the concept has been so roundly ignored by political philosophers.

Attempts by philosophers to incorporate considerations of efficiency into their normative theorizing have been regrettably few and far between; and even in the work of the few notable exceptions to this trend, the role afforded to efficiency has typically been a peripheral one - introduced merely as a side-constraint or checking mechanism, applied ex-post to one’s preferred theory of justice – as we saw under the hospice of Rawls’ work. As a result, the concept of efficiency has virtually never received a proper philosophical investigation of its own. This stands in stark contrast, however, to the real world of political discourse, in which efficiency figures prominently. Political actors treat it as desirable moral ideal, and one that has a powerful role to play in holding together multinational states and facilitating inter-group cooperation.

One of the few attempts that has been made to explore the morality of efficiency can be found in the work of Joseph Heath (2001, 2006, 2011), who also provides us with two potential reasons why efficiency has been invariably left aside by philosophers: (1) that it is so embedded in our culture that we do not even notice it anymore; and (2) that it considered insufficiently moral by political philosophers.

The first reason why people do not conceive of the importance of efficiency then, is that it is so embedded in our lives that it can be easy to lose sight of its primordial role in the organization of liberal democracies. Simply put, we take efficiency for granted because it is part of virtually every aspect of our lives. Whether it be smart phones or fuel-efficient cars, people have a natural desire to ‘do more with less’. We want to use our time, resources and energy as efficiently as possible, so that we have more of each with which to pursue our interests and our own conception of the good life. This idea of stretching our resources further is something that almost all of us are looking to do on an individual level.

Collectively, we are engaged in the same enterprise. However, because the mechanisms we put in place are more diffuse, it is easy to lose sight of them and forget that they are the product of a collective commitment to the promotion of efficiency. Thus, whilst many people will often intuitively think of efficiency in specific sectors, such as engineering and management – and stand ready to reward people who come up with useful things by purchasing their goods and services on the market – they seldom think of it as a general societal goal. As I will show now however, the state is fundamentally and unequivocally committed to the promotion
of efficiency, something that can be seen in at least two ways. Firstly – and somewhat indirectly – the state is responsible for instituting and maintaining the set of key public institutions upon which the successful functioning of the efficiency-seeking market depends; and secondly – and more directly – the state stands ready to step into the breach created by market failures, and supply goods publically whenever there is a clear prospect that doing so will be more efficient.

There is a broad political consensus as to the desirability of the market economy. This is so because the possibility of exchange – typically for financial gain – provides the right incentives to private parties, such as individuals and firms, to use resources efficiently. That is why it is often said that the market turns private interests into public virtues. The engineer who develops a plane model that consumes less fuel, and thus reduces the operational costs of airline companies is also serving the community as his ideas, once applied, are likely to lower the price of plane tickets and make air traffic less harmful to the environment. What is more, this happens without any deliberately public-spirited intentions on the part of the different actors. They are merely responding to the incentives provided by the market for innovation: the desire to get paid more – and thus have more to trade on the market to facilitate their own lives. That is what Adam Smith meant when he famously described this mechanism as the ‘invisible hand’. Collective benefits are generated without any careful planning or anyone explicitly intending these results. But although efficiency is attained in a way that can appear, and many would like us to believe is, natural, almost magical, this metaphor could not be more misleading. Indeed, the well-functioning of markets is highly dependent upon the maintenance of a large set of political institutions such as a legally enforced system of property rights, a justice system that enforces agreements that have been contracted between parties, the regulation of advertisement and certifications to avoid asymmetry of information problems, and many more.

The question then is why we consent to the state being engaged in these activities that allow the market to put people out of business on a daily basis. The straightforward answer is that we are collectively committed to efficiency; and thus to the extent that the market is delivering efficient results we are happy to continue to facilitate its successful functioning. Of course, there are situations in which market failures such as natural monopolies, adverse selection, or ‘missing’ markets lead to the market producing sub-optimal results. It is in these cases where the state further demonstrates its commitment to efficiency by stepping in and taking over the organization and provision of these goods on a public basis.

One good example of such State involvement in the economy, as an efficient provider of goods and services, is that of universal health insurance, as in Canada. Health insurance, just like any insurance mechanism, is a system of risk-pooling. Because life contains a good deal of uncertainty and risk, people are ready to make savings so as to be prepared to face unforeseen events. What is special about health
insurance as such is that everyone will need health care at one moment or another – notice that the two services, health insurance and care are distinct services. Whether because one is the victim of an accident, experiences poor health, or needs regular check-ups after a certain age due to the increased risks of developing certain diseases, we can pretty safely predict that every individual will require health care services at some point during their lives. This simple fact then makes it the case that health insurance is, from a public-economic perspective, a natural monopoly. If every individual needs that service (e.g. a system of risk-pooling), than is it cheaper to insure everyone as the number of people who pool risks increase – due to the ‘law of large numbers’ (Heath 2006: 323). In this way, people who are not sick transfer money to those who are sick in an efficient way. The only reason why the state takes care of health insurance is that unlike car insurance, everyone has a body to insure.

One can say that governments are actively engaged in providing public goods and services, very often simply because the market would under supply some goods or services even where expected prices are extremely high. What the health insurance example shows is that the government can become an economic agent for reasons of efficiency: and as a result fewer resources need to be engaged to provide a service that everyone needs. In the case of health insurance, the Canadian government does not just tax the rich to send cash to the poor so that the latter can buy health insurance on the market: it intervenes in the economy to reach an optimal collective outcome that the market would fail to ‘naturally’ arrive at. The fact that this way of doing things also serves justice is not just an accident: it is the product of a commitment to efficiency, to using resources where they are most useful, which is something that most of our Western societies do – although they have different ways to realize this enhancement of efficiency.

Thus, our commitment to efficiency is deeply-rooted within our societies and government practices; and while this is a fact that often seems to go unnoticed or forgotten by philosophers, it is certainly not something that is obviously regrettable. For as Joseph Heath has maintained, “Our increased commitment to efficiency is a sign of progress”, owing to the fact that:

“Efficiency is not necessarily a cold, calculating virtue nor is it merely a mask for self-interest. Efficiency is a noble, humanistic value intimately related to a number of other values that we hold dear, such as cultural diversity, respect for individual rights, and the alleviation of suffering” (Heath 2001: xviii).

5 Although it is true that the health care system is financed unequally by the rich and the poor, such a risk-pooling mechanism is still not a full-blown redistributive system. The actual distribution that takes place in a universal health care system is rather that from the healthy to the unhealthy. The advantages of a universal health insurance is that we can avoid moral hazard and the information costs related to the control of adverse selection.
This leads us to the second reason why efficiency is neglected by normative theorists: they think that it is insufficiently moral. In part, this may be due to an erroneous conception that only the market operates according to the logic of efficiency, while the state bases its actions on a fundamentally different rationale. There is another element to the confusion though, emanating from a misguided division of labor instigated by philosophers, in which economists are expected to deal with questions of efficiency, while philosophers concern themselves primarily with justice (Miller 2004: 134). This specialization of labor has meant that the only theorists who have provided arguments in favor of federalism on efficiency grounds have been economists, while philosophers have preferred to rely upon considerations of identity in order to justify the multinational state.

Moreover, the economists who have tried to argue in favor of federalism on efficiency grounds have done so from the standpoint of a predominantly libertarian ideology. According to their arguments, the internal divisions introduced by federalism between different political subunits, and between the subunits and the central state, make it more difficult to organize large-scale collective action, of the type required by extensive public goods and redistributive programs. Furthermore, the internal mobility that characterizes federations means that citizens and firms are free to ‘vote with their feet’, choosing to base themselves within the regional unit which best matches their preferences. As it is typically the wealthier citizens and firms who are the most mobile ones; and as they are typically less reliant than others upon the provision of extensive public services, the model predicts that sub-state governments will be forced to compete to offer ever lower levels of taxation (and thus public services) in order to attract mobile sources of capital.

These models fail on at least two grounds however. Firstly, they assume perfect mobility of firms and individuals, when in reality – and in particular within multinational federations – there are significant ‘constraints on mobility’. Language and cultural barriers for instance will tend to strengthen individuals, and even firms, attachment to a particular community thereby calling into question their ability to change location in pursuit of a less burdensome tax regime. Secondly, they commit to the ideologically inspired fallacy of the ‘government as consumer’ (Heath 2009: ch4), thereby failing to admit the possibility that a public provision of goods and services can be more efficient than a private distribution through the market. In other words, they overestimate the choices that people would have on a free market to purchase certain goods and services; and underestimate the options available through public provision.

Even when efficiency has escaped from the ideological grip of the libertarians, it has often been assumed to lend explicit support to utilitarian theories. In this formulation, efficiency is seen as permitting the sacrifice of an individual’s wellbeing provided that it promises to increase the total sum of happiness or utility. In order therefore, to rescue the concept of efficiency from the clutches of both libertarians
and utilitarians, and to grant it its rightful place at the heart of political philosophy, I must now elaborate upon our understanding of efficiency that I propose, and the ways in which it differs from the erroneous conceptions that we have now briefly canvassed.

Striving for efficiency means that we are striving for ‘win-win’ situations. In other words, we understood the term in its ‘Paretian’ formulation: that is to say, a state in which – normally after a sequence of exchanges, each representing a ‘Pareto-improvement’ – it is impossible to improve the satisfaction of one person without making another worse off. Understanding efficiency in this ‘Paretian’ sense, offers up a number of normative advantages. Firstly, by not allowing that we make one person worse off in order to improve the satisfaction of another – even if the latter would gain more than the former would lose – we reaffirm our commitment to fundamental moral principles about the intrinsic dignity and moral equality of all individuals. In other words, efficiency is incompatible with the utilitarian ideal of maximizing the total sum of utility by any means possible: according to ‘Paretian’ efficiency, nobody can be used as a means to the wellbeing of others.

Secondly, efficiency in this sense eliminates the possibility of what Heath describes as ‘gratuitous suffering’ – that which occurs in inefficient outcomes where at least one person is made worse off than they otherwise might have been without anyone benefitting. By contrast, ‘Paretian’ efficiency does not allow anyone to be ‘losers’ in the arrangements we choose to redistribute goods or wealth more generally. It is worth quoting Heath at some length on this point.

“From this perspective inefficiency seems much worse than ‘mere inequality’. With redistributive transfers, even regressive ones, the loss to one individual is at least offset by the gain to some other. It is a win-lose transformation. Inefficient outcomes, on the other hand, are lose-lose. Thus inequality has a silver lining; inefficiency has none.” (2011: 24)

This helps to explain the problem of seeing inter-group federal redistributive measures as a zero-sum exchange. The ‘win-lose’ arrangement that these measures are seen as representing requires a motivational basis to justify the self-sacrifice to the losers. It is better instead to see inter-group transfers of wealth as a necessary, and fair, price to pay in order to maintain the successful functioning of a system of social cooperation which provides benefits to all.

Of course, even if we are able to see inter-group federal cooperation as a successful pursuit of the promotion of efficiency, there still remains the question of how to distribute the costs and surpluses created by the establishment of a fair system of social cooperation. In other words, even within the stance on the value of efficiency we are required to formulate principles of justice for the distribution of benefits and burdens.
With this in mind, we are happy to concede that a system designed to promote efficiency will inevitably create legitimate expectations in agents who expect to be rewarded when they demonstrate entrepreneurial skills, invest capital, take risks, and display innovation in making the best possible use of available resources. Additionally, one can expect that when phrased purely in terms of solidarity and self-sacrifice, the tax burden which is inflicted upon such individuals may be seen by them as a disincentive to pursue further innovation, and as standing in fundamental conflict with the society’s perceived commitment to the pursuit of efficiency.

However, the conclusion – pedalled by some economists - that redistributive measures cannot be justified within a system which is dedicated to making gains in efficiency does not necessarily or automatically follow, it is a non-sequitur. Instead, we can subscribe to a system in which individuals are rewarded for efficiency, but are also expected to internalize the costs of their choices: they are, in other words expected to pay more for the services that they receive, and which provide them with a disproportionate benefit.

Imagine a firm that sells books online and delivers them to your doorstep. You are ready to pay for that service because it is convenient and relatively fast. On the one hand it is normal that the firm, which has innovated, invested capital, taken risks etc. is rewarded for the service that they provide to novel readers and academics. On the other hand however, we must also grant that the company did not build the roads that they use to deliver their products, nor did they invest in the creation of the internet which they now use to advertise and sell their products. Furthermore, they did not provide the education from which their workers have benefitted, nor do they pay for the healthcare system which restores their workforce to full health, etc. In other words, those who have more are, almost by definition, benefitting more from the system of social cooperation which has been put in place. It is only normal therefore, that they should contribute more to the maintenance of that system by contributing a larger share of the tax yield. In this way, they give something back to society for their private use of public goods. Seen in this light, paying taxes should not be understood as a burden, but rather as the fair price to pay to maintain a system through which all are benefitting: giving back a little in order to support a system through which you have gained, and can expect to continue to gain.

Transposed to the context of multinational states we can easily imagine that some regions are richer due to the benefit they receive from an advantageous geographical location. For example, the presence of major national ports or airports or having the federal capital in your sub-unit can provide significant inputs into a given region’s economy, and this could very well be the result of considerable investments from the central government in infrastructure building. The same is true about other cooperative practices, such as federal security arrangements, which (for decades) allowed all regions to pursue their own autonomous development. Although these practices vary from case to case, the general idea is that regions who
benefit the most from common infrastructures and institutions should contribute more to the common scheme of cooperation. Of course there will be limits to such burden-sharing, in particular at the point at which the costs of union exceed the anticipated benefits, this will produce incentives for secession which thus undermine the stability of the federation and the efficiency gains that it can produce.

What is more, it would seem intuitively unjust if the relative position of a sub-state unit vis-a-vis other units (its wealth ranking) were to be significantly altered: a sub-unit which places at number 3 of 17 according to GDP per capita should not then be reduced to 16 of 17 after their share of taxation is taken into consideration. In such a situation, and even assuming that the group remained a net beneficiary as a result of practices of federal cooperation, they might decide that they preferred to accept the efficiency losses of independence rather than submit to the indignity of perennial mistreatment.

If we wish to secure the benefits of efficiency over an extended period of time, as well as having efficiency serve as the motivational basis for social cooperation, it is clear that we must minimize the incentives for secession, and this can only be done by reaching a just agreement regarding the distribution of the benefits and burdens of cooperation. However, rather than attempting to establish a priori what such an arrangement might look like according to a self-standing or pre-defined principles of justice, I believe that agreements are more likely to prove stable and enduring, as well as contextually appropriate, if they are the result of consensual settlements between actual parties. Thus the desire to continue enjoying the benefits of efficiency will itself set limits on the terms of federal cooperation, and provided that secession is a potential option for sub-units will help to ensure just outcomes.

Now that we have dissipated some confusion about the concept of efficiency, its normative advantages should be much easier to grasp. Unlike perfectionist ethics, efficiency is neutral in the way it tells us how social institutions ought to be organized. It does not rely upon any conception of the good. Moreover, the fact that it pushes us to strive towards ‘win-win’ arrangements is likely to motivate cooperation in contexts of even deep pluralism - and the many kinds of it we find in multinational states: national, geographical, ideological, etc. For this reason, I follow Heath when he says that: “We like efficient social institutions because they do not tell us how to lead our lives. They provide a neutral framework within which we can go

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6 This fairness requirement of limiting what can reasonably be asked of richer regions is developed further in P. Van Parijs, “Fiscal Federalism and Solidarity: In Search of an Ideal Formula”, in Recognition and Redistribution in Multinational Federations, J.-F. Grégoire and M. Jewkes (eds.). KU Leuven Press: Leuven. (Forthcoming).

7 As Philip Pettit has it, the parties should engage in an ‘acceptability-game’, in which: “The parties are required to propose the policy that they favour in the domain of group choice – or perhaps to suggest a novel candidate – and to present considerations to one another that should count as relevant by the lights of all” (2012: 253).
out and decide for ourselves how we want to live” (2001: 36). Hence, efficiency is not only morally appealing, but also very likely be a realistic ideal on which we can ground cooperation in multinational states as it is endorsable from a plurality of cultural and ideological positions. As I have established, this stands in stark contrast to the ideal of overarching identity and the redistributive view which have a somewhat chequered record of justifying and motivating social cooperation in multinational environments.

The principle of efficiency also avoids the potential for paternalism that is inherent in philosophical discourses about identity-based solidarity. The problem with the argument for the creation of overarching identities in multinational states is that it has the perverse tendency of imposing upon some the identities of others. Telling other people how they should feel about themselves, and where the boundaries of their identity should lie, might be done with the best of intentions, but it remains deeply paternalistic. It is akin to imposing a thin conception of the good because it assumes that some identities are ‘better’ or ‘more moral’ than others. Adopting the principle of efficiency has the advantage of being more neutral, and thus more respectful of the plurality of identities found within multinational states.

Consequently, the principle of efficiency leads us to adopt a ‘public-goods’ conception of the state, here the federal state, instead of a redistributive one (which is based on the principle of equality). In other words, the pursuit of efficiency will determine strongly which competence will allocated at what level of government. In multilevel settings, as in federalism, the principle of subsidiarity will often be of great help to divide competences between governments. In short, that principle stipulated that a power shared between levels of government (as in the EU) is exercised at the lowest appropriate level of governance (Portuese 2011). In other words, we can say that powers or competences for which there is high heterogeneity of preferences should be decentralized, and those for which there is low heterogeneity (i.e. relative homogeneity) should be exercised at the higher level (Alesina & Spolaore 2003). Although I leave here aside considerations on the formation of federations, such as security issues and trading zones (Riker 1964), the framework that I develop is in perfect continuity with the instrumental origins of many federations. In the remaining section, I will examine the case of MNF that are taken as given already.

3. Efficient federalism as (republican) political legitimacy

I now turn to what I consider to be the implications of adopting the principle of efficiency in MNF. More specifically, I will try to establish a connection between the republican political theory, the alternative to the liberal approach criticized above, and the public-economic model of the federal state that is entailed by the principle of efficiency.
Although I cannot defend here the connection between federalism and republican theory, I work with the assumption that federalism is the republican regime par excellence. This idea is not new and has been championed by the authors of The Federalist in post-revolutionary America. In our contemporary times, Iris Marion Young has sketched the connection between the republican ideal of non-domination and federalism (2005). In what follows, I explore the path set by this regretted great philosopher.

The ideal of freedom or self-determination as non-domination has been developed in contemporary philosophical language by Philip Pettit (1997, 2001, 2012, 2014) who has built on the work of historians of ideas such as John Pocock (1975) and Quentin Skinner (1998). Pettit has developed the republican theory as an alternative to Rawls’ theory of justice. One of the main difference between Pettit and Rawls is that the latter has neglected the question of political legitimacy, assuming that a government imposing a just order was de facto legitimate. But as Pettit has shown (2012), the imposition of a given order is a separate issue, as a benevolent tyrant or enlightened colonialism does not qualify as legitimate for proponents of the republican approach. In both cases, the hurdle comes from the fact that even if those who are in a position to interfere at will refrain to do so, the freedom enjoyed by the subjects remains dependent on the good will of their master. Yet, republicans defend a fairly robust conception of freedom that take its roots into the conception of the free citizens in republican Rome (hence ‘republicanism’), the liber, in opposition to the slave, the servus.

Bluntly, the ideal of non-domination can be defined as being more demanding that its liberal counterpart, freedom as non-interference. Non-domination requires that agents, individual or collective, be empowered in ways that makes arbitrary interferences by others extremely costly, if not simply impossible. In the latest formulation to date, Pettit tells us that: “the freedom promoted in republican theory requires protections to guard against any power of interference on the part of others, not just to make interference by others unlikely. Rawls thinks that there is a need to guard against interference only insofar as it is a probable prospect, and so he weakens the case for robust insurance and insulation.” (2014: 103) Hence, political legitimacy requires robust protection against interference by others, likely or unlikely.

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8 In famous The Federalist No. 10, Madison says: “And according to the degree of pleasure and pride in being Republicans, ought to be our zeal in cherishing the spirit and supporting the character of Federalists.”

9 All these authors recognize that post-revolutionary America represents a ‘Machiavellian moment’ in the history of political thought and that the authors of The Federalist are classical figures of what is now referred to as the ‘Italian-Atlantic’ or ‘neo-Roman’ tradition of republicanism.
Now if we apply that framework to federal states and sub-units, that entails that the federal principle of equality between the federated and the federal government should be understood as giving the former robust protection against arbitrary interferences, both in its horizontal and vertical relations with fellow governments. Each government has to be willing to stand on an equal footing with others and to promote non-domination internally as well as externally. In the republican view that I defend, this commitment nourishes a federal culture, or spirit, based on the ideal of non-domination. That in turn requires the shared-rules (as well as the self-rules) within federalism be designed accordingly to that normative understanding. Those shared-rules, if we follow Pettit’s theory of legitimacy, should be determined through an ‘acceptability game’. In such a game, parties, here federated entities, put forward considerations that can be receivable by the other parties involved – in opposition to the ‘overlapping consensus’ that the Rawlsian ‘free-standing’ conception of justice is supposed to produce. The considerations at play will fall under two categories: convergent and concordant interests. The former refers to the meta-rules, the rules that will be used to make decisions. The latter refers to the specific policies that will be decided upon.

The patterns of justice and of the division of responsibilities, under the pursuit of efficiency through the principle of subsidiarity, will thus fall under the category of concordant interests. To define those, it is interesting to quote Pettit at length:

“Concordant… considerations point the participants in an acceptability game to benefits that accrue only to this or that individual or subgroup. Despite the partiality of their relevance to people’s fortunes, these considerations will command a following on all sides to the extent that everyone accepts that it is a matter of convergent interest that the group as a whole should confer that benefit on the sort of individual or subgroup favored… For example, that a benefit would help some while not doing any harm to others – the fact that it would represent a Paretian improvement – may argue on all sides for a policy that promises that benefit.” (2012: 257)

That precision about the patterns of decision-making in a legitimate republican state are perfectly compatible with my application of republican legitimacy to federalism. Here the agents are the federated entities, and the commitment to reducing the vulnerability of each to domination (to give them the external conditions to be internally responsive to their citizens) suggest that the pursuit of Pareto-efficiency might be an effective way to do so. That is especially true in our un-ideal world where globalization (and phenomena like the ‘Dutch disease effect’) bring about very uneven development across regions – one could say that we now live in the age of “the wealth of regions”, not the “wealth of nations” anymore.

That un-ideal situation challenges the Tiebout model discussed in the introduction. Recall that in multinational settings there are important constraints on mobility, which was a first objection or challenge to this model. Now there is a
second challenge, which is that federated entities cannot just decide at will what levels of taxation they will adopt and which public goods and services they will offer, because their capacity to do so is often dependent on external factors.

Under the republican theory of federalism that I defend, entities are committed to pool their forces to reduce the external vulnerabilities of each and of the whole. In our non-ideal globalized world and within large federal entities, that will thus require that we move beyond the traditional liberal inter-individual system of ‘redistributive justice’, and to think of fiscal arrangements that take these inter-regional disparities into account. Thus the pursuit of efficiency can set a path to resolve the supposed tension between recognition and redistribution that can exist within MNF.

The advantage of adopting this framework within MNF is that despite a lower capacity for effective mobility of citizens, at least the most vulnerable ones, like monolingual individuals who have much less opportunities, we can foster vertical competition between governments. The appeal of the republican-public-good approach that I suggest is that it will introduce incentive for politicians to pursue innovation and to actualize the ‘experimental potential’ that many people identify with federalism. Here a dose of competition might be a good thing, which would not necessarily leads to a decrease in political intervention in the economy. As Portuese tells us: “fiscal and regulatory competition may bring about either a ‘race to the bottom’ or a ‘race to the top’, but they always lead to optimization and thus ‘a race to efficiency’.” (2011: 237)

What this leads us to is that by embracing the principle of Pareto-efficiency, coupled with the republican theory of political legitimacy, we can avoid the undesirable and less plausible consequences advocated by libertarian and Tiebout-like theories. The non-ideological pursuit of efficiency can justify strong interventions of governments in the economy and the constraints on mobility in MNF do not mean that we have to renounce to virtuous competition between jurisdictional levels. That competition should contribute to avoid moral hazard problems that can occur in purely ‘redistributive’ schemes, in which political actors have no incentives to innovate to increase efficiency, as has been argued in the fiscal federalism literature (Oates 2005).

This argument works along similar lines as the Madisonian concept of a “double security… to the rights of the people”, which provides the benevolent consequence that “the different governments will control each other; at the same time

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10 On this point, it should be noted that the “Wagner’s Law” in economics actually better explains the considerable rise of the percentage of the GDP of governments in advanced economies throughout the 20th century, even in times when ‘conservative’ governments were in place. For more on this, see Heath 2011.
that each will be controlled by itself” (The Federalist No. 51). Madison’s argument is that the institutional checks and balances provided by federalism reinforce the self-binding mechanisms that local governments have to subject themselves to. Firstly, by being accountable to their constituencies, government have to bind themselves to track the interests of their constituencies – mostly, to win elections and remain in power. Secondly, in case one government tries to usurp powers and behave irresponsibly, the federal government can constrain it in order to track the interests of its constituency and promote responsible governance.

One possible objection to the benefits of self-binding strategies is that they represent a violation of the federal principle that each level of government should enjoy complete sovereignty within its own sphere of influence. It might be suggested, that in submitting sub-units to constraints regulated by the central government we undermine their independence and the credibility of the federal system. However, the republican account of political legitimacy provides an answer to that objection: the shared-rules as well as the self-rules within the federation have to be democratically decided to be legitimate. The central government should instead be there to ensure that externalities will be internalized, as when we witness phenomena such as the ‘Dutch disease effect’, as is the case with equalization payments in Canada. In short, federalism can and should provide an extensive system of insurance against exogenous shocks, especially if we are committed to reducing the vulnerability to arbitrary interferences by other agents, direct or indirect. Indeed, if federalism is to provide binding measures for both the central and sub-unit governments it is essential that both are powerful, independent agents who, somewhat paradoxically, are capable of constraining the actions of the other.

In other words, making the groups’ capabilities to be reciprocally dependent is not at all contrary to the recognition of national minorities. Rather what it means is that their freedom or autonomy will be regulated in ways that will be beneficial both to their own people and to their federal partners. What is more, it also does not entail a loss of sovereignty for the sub-unit, provided that they have voluntarily consented to the binding strategies to which they are subjected; in other words, that they are truly self-binding strategies.

This creates a need that the adoption and implementation of – preferably hard – budget constraints is the result of a consensual agreement by parties, and gives added emphasis to the importance of a genuine constitutional moment in political constellations that aspire to federal integration. The need for such ‘constitutional moments’ is ardently desired by nationalist movements in many federal or quasi-federal states such as Canada, Belgium, Spain and the UK. One reason why such groups pursue independence is that they want the shared-rules that they are currently subject to, to be genuinely self-binding, and not just imposed externally. The pursuit of efficiency in multinational federations therefore requires that shared-
rules be the product of actual negotiated arrangements, and not just abstract principles or paternalistic identities imprinted upon the different groups.

Conclusion/Summary

1. In the first section, we have seen that the prevailing redistributive view of the state, based on the principle of equality, is misleading. Although it might seem morally appealing, it neglects that states are major economic agents who are engaged in the production and the distribution of public-goods and services. Hence, we need to look elsewhere than in identity and solidarity as motivational mechanisms for cooperation in federal settings.

2. In the second section, we have seen that the principle of efficiency, under its Pareto formula, has been neglected by political philosophers mainly because a) it goes unnoticed in our societies, especially in public institutions and because b) its important moral dimension has been dismissed. However, after analysis it reveals that the principle of efficiency and its correlated public-goods model of the state are morally appealing, as they allow us to justify the role that political institutions play and to better grasp how they actually allow us to find a balance between the different values that we hold dear, such as equality, dignity and diversity. For these reasons, the well-understood principle of efficiency does not justify libertarian claims nor is it tied to utilitarian ethics. The pursuit of efficiency should be the affair of states as the state is not a mere consumer of resources.

3. In the last section, we have seen that republicanism and its ideal of non-domination, as a rival theory to liberalism in political philosophy in general, are well equipped to cope with the requirements of the Pareto-efficiency principle, especially in MNF. If we look at the classical example of The Federalist, we can see that we can supplement the horizontal competition championed by Tiebout-like and libertarian theories by a vertical competition between levels of government to better satisfy the preferences and protect the rights of citizens.

4. Thus, by embracing the principle of efficiency and combining it with the republican ideal of non-domination, we can develop a framework that better copes with the actual discourse of federal political actors, that better copes with the instrumental origins of federalism, and that offer better prospects than identity theories to preserve the benefits that can be provided by federal arrangements between different political communities.

The bottom line is that one should not put the horse before the cart: the prevailing view gets things backwards by arguing for the creation of overarching identities or the development of inter-regional solidarity to motivate cooperation and
make efficiency more likely in institutions and more palatable. Achieving efficiency will make people identify with their common institutions and this common identification will motivate them to cooperate over time. There is thus hope for philosophers to have their cake and eat it too in MNF.

BIBLIOGRAPHY


