

## A DOUBLE SECURITY: FEDERALISM AS COMPETITION

*Aaron Wildavsky*

A double security arises to the rights of the people. The different governments will control each other, at the same time that each will be controlled by itself.

—*Federalist* No. 51

### Introduction

The triumph of America's regime values of democracy and capitalism in Eastern Europe would appear to justify a brief moment of self-congratulation. In a thought-provoking essay, Francis Fukuyama (1989) has memorialized "the end of history," not, of course, of events but of differences over which type of economic institution is most productive (i.e., markets) and what kind of political process (namely, democracy) best promotes human welfare. I think not. No one seems to have noticed the effort to use democracy against capitalism in the name of equality.

The existing poverty of organizational or cultural forms has boxed human choice into a dichotomous straitjacket: On one side is hierarchical collectivism, as in feudal monarchy or Soviet communism; on the other, competitive individualism, as in American capitalism.<sup>1</sup> Since there are only two possible places for human beings to end up, if they reject one (say Soviet-style hierarchies), they must embrace the other (some sort of capitalism). Not so. Egalitarianism—a life devoted both to community and to individual expression; a life in which the guiding norm is greater equality of condition and in which

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<sup>1</sup>For an extended discussion demonstrating the dualism of the masters of social thought from Montesquieu to Merton, see Thompson, Ellis, and Wildavsky (1990).

the gradations of power are suspect of depriving citizens of participation in the public sphere—remains a lively option, nowhere more so than in the United States.<sup>2</sup>

Interpretations of American history have focused on the defeat of hierarchy by individualism. The exceptional features of American political life—the absence of strong socialist parties or nationalized industries or nearly as large a welfare state apparatus as in Europe—have been traced, following Louis Hartz's influence, to the absence of feudalism, that is, to the lack of a hereditary hierarchy.<sup>3</sup> While this interpretation is true and important, it is not all the truth—and I increasingly believe it is not the main truth.

True enough, from the revolutionary period on, the principle of hierarchy has grown steadily weaker. It is estimated that a third of those who identified themselves as Tories (hierarchists to us) fled to Canada. The only two avowedly hierarchical major parties, the Federalists and the Whigs, were short-lived, unable to elect presidents of their own persuasion (after the two Adamses died) before the Civil War. To say this without saying more, however, is grossly to distort American history because the statement leaves out the crucial part played by egalitarianism.

What was exceptional about the United States of America was not only the weakness of hierarchy but its defeat by an unusual coalition of individualists and egalitarians. The origins of this coalition<sup>4</sup> lay, first, in the mixture of these two cultures in the immigration of Puritans,<sup>5</sup> and, second, in their common opposition to that distant (and, they felt, oppressive) hierarchy, King George the Third. Egalitarian influence was strong among the anti-Federalists, was stronger still among Jeffersonians and Jacksonians, and was dominant among Abolitionists (Friedman 1982, Ellis and Wildavsky 1990) and Populists (Malecha 1988). Egalitarian influence is now strong among Democratic Party activists (Jennings and Miller 1986, Polsby and Wildavsky 1988); environmentalists (Dake and Wildavsky 1990, Douglas

<sup>2</sup>On egalitarianism, see Douglas (1970), Douglas and Wildavsky (1982), and Ellis and Wildavsky (1989).

<sup>3</sup>Hartz's *The Liberal Tradition in America* (1955) chronicles the supremacy of John Locke's liberalism, harking back to the continental use of "liberal" as "individualistic."

<sup>4</sup>I believe that this same coalition is responsible for the rise of capitalism (see Webber and Wildavsky 1986).

<sup>5</sup>Thompson, Ellis, and Wildavsky (1990) reanalyze Max Weber's splendid *The Protestant Ethic and the Spirit of Capitalism* to show that he conflated rather than separated the quite different opposition of individualists and egalitarians to the hierarchy of their day.

and Wildavsky 1982); and major media journalists (Lichter, Rothman, and Lichter 1986; Wildavsky 1987).

From colonial times until the mid-1960s, the individualist-egalitarian alliance was based on the belief that equality of opportunity, without the unfair intervention of the central government, was compatible with sufficient equality of condition to support liberty. In short, American egalitarians located the source of inequality in the central government. The difference is that their ideological successors locate inequality in corporate capitalism. Instead of an alliance of egalitarians and individualists against hierarchs, egalitarians are on the attack against both, with emphasis on opposition to individualism. So what? Does this radical change matter? And why is it being discussed in a paper on federalism?

The worst mistake one can make in interpreting our political history, in my opinion, is to merge individualists and egalitarians as people who oppose authority (Wildavsky 1988b). Though individualists prefer to substitute self-regulation for authority, they wish to minimize, not to overturn it. By contrast, egalitarians reject authority as inherently inegalitarian. Where individualists are technologically optimistic, believing that risk is opportunity, egalitarians (after the Industrial Revolution) came to see large-scale industry as a producer of inequality and hence morally polluted. In the view of egalitarians, therefore, industry should be regulated extensively to reduce its harms. And there is the rub.

The rise of egalitarianism matters to students of federalism because egalitarians oppose competition when they see it as a source of inequality; yet there can be no competition without creating inequality. Instead of espousing, as they used to do, that equal opportunity and equal condition are compatible in America, egalitarians now contend that there can be no genuine opportunity without much greater equality of condition. Whereas they once legitimated political procedures without requiring agreement on policy, they now demand agreement on egalitarian measures as a precondition of granting legitimacy to the political system.

Uniformity is antithetical to federalism. A belief in uniformity, for instance, could be manifested by strong central rule and modified by delegating authority to geographic units. This delegation, though it belongs to a unitary conception of government, is often called decentralization. Noncentralization, by contrast, refers to independent centers of power in geographic areas that do (and are expected to) differentiate themselves. Though there may be some centralization in a federal system, and there might be decentralization (i.e., delegation), there must be noncentralization.

A belief in equality, not only of opportunity but of outcome, would be hostile to noncentralization, for then there could be no substantial differences among states. The existence of states free to disagree with one another and with the central government, however, inevitably leads to differentiation. Yet states must differ with each other and with the national government if they are to do more than obey central directives. Were there to be a change in values toward equality of condition, therefore, the political culture that undergirds federalism would fall apart. For if there is anything essential to a vibrant federal system, it is competition.

### The Three Progressives

Three of the great movements of modernity—democracy, science, and capitalism—are based on competition. Democracy is centrally concerned with competition for office, including the auxiliary liberties necessary to make it work—information, speech, association, and voting. Those who have suffered most from dictatorship, we all observe, place great value on free elections. The activity we call science is well conceived as competition over ideas. Knowledge is sought through what Karl Popper (1962) calls “conjectures and refutations” (i.e., competition). The theory and the practice of economic growth is based on competition. The idea is that, in national and international markets, investors seek the highest return, thus reinforcing the highest value ventures and weakening the worst. When competition is absent, as in command economies, growth declines. For example, a study of Polish planning shows that economic action by issuing commands creates negative selection; with unerring precision and regularity, the least economically worthwhile projects are chosen (Clark and Wildavsky 1990).

When we want knowledge, we do not set up a hierarchy whose purpose is to figure out the best way to learn new things; on the contrary, we rely on a competitive process in which numerous people, connected by common interests, strive for excellence. When we want liberty, we do not establish an organization to make us free; instead, we rely on political parties to compete for popular favor. When we want economic growth, we do not set up a command and control system, because we know that would be counterproductive. Rather, we rely on bidding and bargaining among independent and interdependent economic agents to make resources grow. Why, then, when we wish to arrive at a division of labor between the national and the state governments, do we seek a central, cerebral solution, as if there could be some set of principles to be accepted by (or

imposed on) everyone that would tell us what should be done by whom? If we think so well of competition that we enthrone it in democracy, science, and economics, why should we not tackle the problem of federal structure in the same way? What would a federal system look like if it were organized by rules meant to produce a division of labor that would reflect the results of competition?

## A Prelude to Competition

Parallel play (a space for states, a space for national government, and a space for both of them together) was once the neat theory of the American federal system. Under the prevailing image of the layer cake (a platonic arrangement if ever there was one), the parts never penetrated except by benefit of constitutional clergy. When Morton Grodzins (1966) observed that this parallel plane was really a triangle, a marble cake instead of a layer cake, there was confusion but not consternation. As Daniel Elazar (1962) demonstrated, cooperative federalism was the norm virtually from the outset. The good feeling remained that American pragmatism had apparently triumphed over foreign theorizing.

The question of what exactly to call this compound of national and state rule was, for a time, superseded by calling it "good." So long as a few bands of dark were still visible against the white, there was sufficient resolution to say it was something. We could have our federal cake (color me marble!) and eat it too. But as government grew from the mid-1960s, bands of marble gave way to veins going every which way, so crisscrossed that no one could say what was up or down or who was (simultaneously?) on top or bottom. Big government (large numbers of large programs taking a larger proportion of national income) had made the division of powers among governments unrecognizable; it was hard to tell one level from another (say, with the federal government supporting local libraries) or to discern any difference in principle among the levels.

Under a unitary regime, states and localities carry out national instructions; the problem is how to improve their obedience. In a federal regime, states and localities are disobedient. The operational meaning of federalism is found in the degree to which the constituent units disagree about what should be done, who should do it, and how it should be carried out. In a word, federalism is about competition and conflict. Federalism is also about cooperation, that is, the terms and conditions under which competition is limited. A federal regime, therefore, cannot be coordinated any more than it can be controlled or coerced. Federalism requires mutuality instead of hierarchy, mul-

tuple rather than single causation, and a sharing instead of a monopoly of power.

If there is a federal principle, it cannot be limited to relations between national and state governments. If it is good for power to be divided and shared, that principle must also prevail in relationships among states and their cities, counties, and special districts. Let us call this principle—under most conditions, a larger number of smaller units will deliver services better than a smaller number of larger units—the federal bias. It is not an unalterable bias; circumstances do alter cases. It is, however, a bias. The burden of proof, for those who share this bias toward federalism, must be on people who propose that bigger and fewer are almost always better (Wildavsky 1976).

If federalism is institutionalized competition among governments, increasing rather than limiting a citizen's choice among service providers ought to be its contemporary key. Citizens will be better served by our asking how to improve their choices rather than by our worrying over which level of big government should monopolize a service. Students of federalism should look not only at the balance among levels of government but, more importantly today, at the relative proportions of the public and private sectors so that competition among governments may be enhanced. When a citizen's choice characterizes federalism, which is as it should be if we want government to adjust to individual taste rather than adjusting the people to their government, the programmatic products should differ state by state.

However, the basic proposition of bureaucratic government, which runs across state and national lines and is fortified by conventional administrative wisdom, is monopolist: Governments should control the allocation of services to citizens within their jurisdictions without competition. If governments had their way, each level would seek to limit competition by getting a higher level to guarantee it. What you see is what you get: The dinosaur solution operates so that programs multiply without simultaneously increasing the intelligence of those who design and administer the programs.

In private industry the theory is competitive but the practice sometimes is not. Following William Niskanen (1971), we may stipulate that, if it could get its way, industry would prefer competition among its suppliers and monopolistic access to its consumers. That is why it is necessary to bring external force to bear to ensure competition. The same sort of pressure must be brought to bear on government if it is to give up its monopolies. No one likes competition (after all,

## A DOUBLE SECURITY

you can lose) except the consumer whose life is made predictable by the uncertainties imposed on others.

For the citizen, then, overlap, duplication, and redundancy (synonyms, in this context, for competition) are not wasteful but wonderful. They enhance reliability of supply; if one supplier will not, another will. Competition cuts down information costs; products may be distinguished by prices, exchanged, or given diversity; their mixes may be compared at the margins. Redundancy results in suppliers working hard to guess what citizen consumers want rather than the reverse. Competition is the better mouse trap that has a variety of units competing to beat a path to the citizen's door.

Anyone who has to deal with governmental agencies, or who wants to apply for grants, knows that it is useful to have a multiplicity of points of access and largess. It is then possible to play them off against each other or simply to go to the most receptive place. Individuals can thus sort themselves out among agencies with different rules, objectives, and personal predilections. Similarly, grievances encountered in one place may be redressed in another. There is no a priori mode of action that fits everyone; instead of fitting citizens into a mold, that is, requiring that they be uniform, it is better to demand that agencies be diverse.

Who is to say what is the appropriate scale of activities? Outside a limited area, including perhaps water and sewers, many unsubstantiated claims are made for economies of scale. The division of labor facilitated by large size may suit certain specializations but is unlikely to result in more cops on the beat or teachers in the classroom or case workers in welfare.

The major movement in education in the United States after World War II, for instance, has been the consolidation of rural school districts. Every study shows that the larger the size, the worse the scholastic or social performance—no matter what measure is used. One understands that consolidation may be useful to state and national associations or supervisors or may reduce the number subject to governmental oversight, but it is a bad buy for citizens subject to it (see Niskanen 1990).

A competitive approach will lead to better, if not bigger, state government. Consider, for example, the quandary of state governments in dealing with pensions and disability payments for their employees. Given the normal operation of the political process, it is all too tempting to hide the true costs of pension provisions by pushing them into the future when another generation will have to pay. The future apparently is now, and the result is huge “unanticipated” costs. The direct way of dealing with this phenomenon is to

set up special committees to monitor retirement provisions. Several states have done just this. But, after the first flush of enthusiasm wears off, a return to business as usual may be expected. Contracting out, by contrast, requires no constant surveillance. Whatever faults the agreement has, other people—the service providers—are responsible for fringe benefits. All the financial costs are on top, out in the open. The relationships are easier to monitor, thus leading to more effective and responsive government.

Nevertheless, if conditions stay the same, monopoly will grow. Indeed, feeling their oats, monopolistic bureaus will not be able to understand why reason and rationality do not dictate that certain classes of activities be provided exclusively through government.

What, then, should be done if one desires a federal system that stresses variety, diversity, and competition? As usual, negative knowledge comes earlier than positive knowledge—big government is antithetical to federalism because it preempts resources for the national government, and because it causes virtually every activity to mix the levels of government. Variety in programs suffers as the feds seek as much conformity as they can get. The point I wish to pursue about positive knowledge is that we do not need what we should not have. A cognitive approach through a formula for demarcation suggests that there can be a general theory to which government activity should be subject. Only citizens, through repeated iterations, can work that theory out for themselves. Let us turn instead to setting up those conditions for social interaction that are most likely to produce outcomes that conform to citizens' preferences.

### The Federal Government as the Fifty-First State

The first thing is to reduce the federal tax to a considerably lower proportion of national income. This reduction is beginning to happen. It is permissive, and it allows states room into which they can expand if their citizens are willing to pay. The thing is not to prejudge the issue; when you do not know what to do, why do anything? Let the states pick up what they wish; let the feds give up what they can. And may the best government win or even, dare I say so, lose weight.

Second, we should think of the federal government as the fifty-first state, that is, as a source of diversity rather than uniformity. Why, the usual question goes, must the feds step in where states fear to tread? Because, the answer always is, a uniform response is required. Since it is diversity that we desire, however, it would be better to ask whether citizen consumers have sufficient variety from which to

choose and, if not, to add rather than subtract alternatives from the menu of public policies.

Is "interaction" a synonym for "inactivity"? Not necessarily. The federal government can act as the fifty-first state by encouraging variety through competition whenever it judges that another alternative ought to be offered to the people directly (such as competitive medical plans) or to the states (better service delivery).

Suppose no government wants to buy some good or service that some people deem essential? Presumably the program has failed an essential political test in a democracy. Suppose some states offer certain services and others do not; one or the other will be disadvantaged. Exactly. That is what should happen to achieve variety and diversity. Maybe what is really meant is that some states will end up with all the bads—the poorest people, the most noxious industries—and none of the goods. Then I suggest the people fire their incompetent politicians and hire competent ones.

Imagine states that keep out undesirable people and industries. Other states may then pick up their jobs and their people. A policy of ecology without people, or of people without industry, or of industry without either, makes no sense. Let people sort themselves out. No telling what they will do. Why, they might even enjoy themselves in ways not yet discovered.

### Division by Cognition or by Interaction

Where is the philosopher's stone of federalism, the demarcation principle between central and state functions that would rationalize a division of labor within the American federal system? Nowhere. Every effort to specify what is local and what is national, I believe, will founder on these facts of life: Every national activity has its local aspects and every local activity has a national perspective. Any two incompatible objectives may be reconciled by a third to which they contribute, and any two that are complementary may be made contradictory in reference to their contributions to a third. It follows that no criterion of choice can be consistent in regard to all the legitimate political perspectives that may be brought to bear on them.<sup>6</sup>

If there is to be a division of policies among levels of government, there must be a mechanism for doing it. Yet there is no universally approved formula for a division of functions that commands assent. A cognitive or planning approach, under which the correct decisions flow from agreed premises, therefore, is not feasible. Instead, I rec-

<sup>6</sup>The extensive and inconclusive literature on the idea of a demarcation criterion separating science from nonscience should serve as a warning to enthusiasts.

ommend an interactive approach designed not only to implement but to discover what works best. The greater the number and variety of organizations for providing goods and services from government, which constitutes a competitive, citizen-centered approach, the more flexible the system will be to respond to taxpayer-voter preferences.

The people do not have to postulate either the optimal size of producing units or the optimal pattern of spatial structure. Rather these would be seen as the outcome of citizens, states, and localities getting the best deal they can and correcting errors as they go along—provided there is an effective financial constraint so that collusion (receiving benefits without paying taxes) is ruled out. Because one cannot predict policy outcomes (if we could, we could also achieve the optimum by planning) or posit the most appropriate governmental structures, the uncertainty may prove unattractive.

Some of us have assumed that nothing good occurs unless some bureaucracy makes it happen. Well, we have been down this road and it is a dead end. A competitive approach may make former monopolists more nervous but it should also leave consumers of services more confident. If the question is who should bear the costs of change, citizens as sovereigns should pass those costs on to those who supposedly serve the public.

As Mark Sproule-Jones (1979) concludes,

The key requirement for institutional reform is to separate the physical production or supply of public goods from the jurisdiction that articulates and aggregates the demands for such services. The economic benefits from reorganization, in terms of internalizing jurisdictional spillovers and exploiting economics of large scale production, may then be harmonized with the advantages—both in economics and in responsiveness—of exposing urban bureaucracies to the threat of potential rivals in production. This reform also offers the potential of enlisting citizen participation in the implementation of public policies from which they have been largely excluded.

The political feasibility of such an institutional reform rests on the relative power of public officials to maintain the monopoly status of their organizations. It would be sanguine to believe that such a reform could be instituted without a struggle.

The desirability of reducing monopoly statuses explains why it is important to spread the federal principle to lower levels. Federalism is misconstrued if it is conceived to be about monolithic structures—national and state—clashing by day, cooperating by night. If competition is desirable among states, why is it not desirable among cities, counties, and special districts? As Buchanan and Brennan (1980, p. 186) put it so well, “restatement of the familiar from one setting becomes a challenge to orthodoxy in another.” Vincent Ostrom (1990)

states the competitive federalism project even more grandly, “we would have the emergence of human societies that no longer depend upon a unity of power to achieve coherence in patterns in human societies. Such an idea is of radical proportions.” This vision of variety might not be so bad: The federal government learns to perform a narrower range of tasks better. States learn to live with widely varying styles of life. People vote by moving to a place where residents carry on the kind of life they would like to live. Perhaps that kind of active personal choice among governmental lifestyles may be as good as we can get.

### Requirements of Competitive Federalism

Once we give up on the idea of creating a set of criteria that will tell us which governmental activities should be determined at the national level, which by the states, and which shared, we are still left with determining the structural principles that would facilitate a competitive federal system. Because we are talking about politics not economics, voters and parties not entrepreneurs, votes not shares, then analogies to markets have to be made with care. Nor is there the agreement on bedrock requirements for flourishing markets that one might wish. Were there such an agreement and understanding, we would not hear nonsense nowadays about so-called “halfway houses” between capitalism and socialism (private markets and Soviet-style command economies). Loose talk in the past about how a certain size government (as a proportion of GNP) would destroy liberty has been refuted by events in which countries such as Sweden and the Netherlands have spent above 60 percent of their GNP while not only being democratic but also experiencing considerable economic growth. Criticism of the element of competition that I put forward is welcome; so are substitutes.

#### *Mechanisms of Selection*

Since competition may be viewed as a process of evolutionary adaptation, I shall begin with the mechanisms of selection. Citizens vote in at least three ways to manifest their preferences about “who should do what and how much” in our federal system. First, they vote with their feet by moving from one state’s jurisdiction to another, much as East Germans expressed their preference by moving en masse to West Germany. Motivation to move for a single reason only, such as the combination of taxes and services, is unlikely; other factors, such as climate, housing, family, and job, may figure importantly. Nevertheless, government may be a consideration, a factor

amplified by the propensity of Americans to move in large proportion and often. Presumably, two things will happen: Governments will try to make themselves more attractive to people, and people of diverse preferences should be able to find niches that come closer to suiting them.

The second way for selection to be effective is there must be an incentive to diversify. One such incentive is the necessity of attracting and retaining people. Another is the desire of rival political parties to obtain and retain control of government by competing for votes. Those people who are interested in competitive federalism should want to make it as easy as possible for new parties to organize so as to preserve and intensify competition. For instance, these people should support legislation to remove restrictions on party organization, including a party's ability to endorse whom it pleases, to restrict primaries to citizens registered with that party, and to spend however much it pleases in support of its candidates. Because parties depend on developing loyalty, they should have every opportunity to place their brand on candidates so as simultaneously to sharpen competition among parties and to simplify choice for voters. Were it deemed advisable to assist weaker and poorer parties to compete in elections, state-supported floors would be preferable to ceilings.

For the same sort of reasons, no effort should be spared in making it easier for citizens to register, which is often the greatest obstacle to voting. Aside from the advantage that higher rates of voting give to the legitimization of the overall political system,<sup>7</sup> we see that the larger the turnout and the higher the proportion of those who engage in this competition, then the harder the political parties have to work at being competitive and the more certain (according to the law of large numbers) is the process of selection.

A third mode of selection is a combination of referenda and polls of public opinion. Referenda like Proposition 13 in California send signals about voter preferences far and wide. Opinion polls, when repeated often enough, when independent from each other, and when using varied methods, provide signals for selection. These signals are how we know, for instance, that citizens, while desiring a lower deficit, are strongly opposed to increased income taxes (White and Wildavsky 1990). Of course, a courageous (or foolhardy) party could try to alter existing preferences, but it would know what the bulk of the public thought.

<sup>7</sup>The United states ranks high in the proportion of *registered* citizens who vote but low on the proportions of *total* citizens who exercise the franchise.

### *Effects of Information on Selection*

Selection depends on information. And competition is the best disseminator there is. Without competition, for instance, cost information could not be obtained. If the price of, say, mailing a letter is what anyone will charge for delivery service, then giving the post office a monopoly on first-class mail effectively prevents such cost information from being created and disseminated.

Each party needs to get its story out, at least in proportion to its standing. Each citizen needs access to news. Recent findings point up the problem: Asked how they are doing and expect to do, most Americans answer positively; asked how their country is doing, however, they say "terribly." My analysis is that each of us is the only possible expert on how we are doing but, by contrast, no one sees "the state of the country"; an opinion about the country is a synthetic, composite judgment that individuals are most likely to get from the major media (television networks, *New York Times*, *Wall Street Journal*, *Time*, *Newsweek*), because they are the only source of information that reaches most people. The media generally agree (except for the editorial pages of the *Wall Street Journal*) that the country is in big trouble. Without dwelling on media bias,<sup>8</sup> we see that communication corrupted by blatant distortion gravely impairs selection (an example might be the urgency in the media of removing asbestos from schools, which on net is harmful, not helpful, to health).

### Four Conditions of Free Competition

Individual choice is also limited by the available parties and candidates, hence my previous stress on allowing freer entry to third, fourth, or fifth parties. It is neither easy nor necessarily desirable to mitigate the limitation on choice that stems from party organization of government. The voter may not be able to choose a list of favored policies because the vote is really between rival teams who come prepared with a list of preferences. In other words, voting is not like eating at a Chinese restaurant where you can choose courses from both group A and group B, but more like a French *prix fixe* menu in which the choice is only among complete dinners. Without cohesive parties, the voter may be able to act more perfectly expressive at the cost of losing the ability to give policy an across-the-board push in a desired direction.

<sup>8</sup>My opinion is that the major media share an equalitarian bias (Wildavsky 1987, 1988a). The problem is not so much that there is bias (though I could live with a lot more CNN reporting), but that the bias is the same.

*Principles of Size*

Perhaps we can get a clue from the criteria that economists lay down for achieving perfect competition. Lists vary. George Stigler (1968, p. 181) says that the following four are most common. Taking them one at a time, we find first a size principle: "A main requirement of perfect competition is that the largest firm in a given industry is to make a trifling fraction of the industry's sales (or purchases)." The idea is to prevent a single firm from monopolizing a product or service so it could set prices without competition. In recent decades, however, thought and observation have revealed that it is much more difficult to establish an effective monopoly than had previously been thought, especially with the march of technology. The pressure and effects that facsimile machines exert on first-class mail, that fiber optics have on telephone and computer services, and that long-distance transmission and pipelines have on electric power are but a few contemporary reminders. Opinion is not yet unanimous but agreement is growing that only government can guarantee a monopoly. Thus, in principle, there is no obstacle to a competitive federalism even if one competitor is much larger than the others in certain fields.

But the federal government can run deficits, thereby supporting activities beyond the willingness of citizens to pay for them. This handicap (from the standpoint of a competitive federalism) may be overcome by customary or constitutional limits on revenue and/or expenditure. An equivalent safeguard may be obtained by offset or pay-as-you-go procedures. In general, such procedures, which now exist in the U.S. Senate, provide that (above a budget resolution that sets a spending ceiling), any proposed additional expenditure covering any of the 13 functions of the federal government must be accompanied either by cuts elsewhere or by new revenues. In this way, the doctrine of "opportunity costs" (defined as the value of an object being determined by what one has to give up to get it) is made manifest. Because federal budgeting would be shifted from all pleasure (indulging this or that group) to pleasure mixed with pain (some other worthy group will suffer), there is hope that the federal government will restrain its ambitions (see Wildavsky 1988c for vivid illustrations).

Another well-known strategy for imposing preferences without paying costs is to mandate performance by states or industry. The states have been trying to resist; after all, all senators and representatives come from states. But the road is uphill, partly because some states use the federal government to get others to share costs, thereby

avoiding the comparative disadvantage of paying while others do not; partly because it is hard for Congress to resist taking credit without paying; partly because of judge-made law; and partly for ideological reasons, to which I will return. It suffices to say here that if some judges were not persuaded that social justice requires greater equality of condition, the judges would not be usurping the legislative budget function.

In response, those who wish a more variegated federal system are trying to revive an old interpretation of the Ninth Amendment as a strict limitation of the federal government to only those matters specifically entrusted to it, all others being reserved to the states. I am dubious. For one thing, such a maneuver is bound to make the Constitution even more of a malleable political object, indirectly justifying expansionist efforts along opposite lines. For another, the so-far successful efforts to read egalitarian intent into the Constitution, by reading new rights into it unknown to its authors and ratifiers (Wildavsky 1990), suggests that the inevitable silences that accompany any governing document will be filled in by political forces. Inevitably, a constitution, if we are to live by it, must be reinforced or reinterpreted by the pulling and hauling of political forces. In other words, the competition among governments that we hope to establish must be a product of political competition, including political education, in the first place. In the end, it is the perceived morality of competition vis-à-vis the alternative of equalization that, as I shall argue in conclusion, will determine the result.

### *Principle of Independent Action*

The second condition of free competition historically laid down by economists, according to Stigler (1968, p. 181), is that "firms are assumed to act independently" in competitive markets. Insofar as governments are concerned, the proviso must be interpreted to allow coalitions but to disallow coercion. States can get together with each other or the feds, but no one can order the others so that the recipient must obey. Certainly this condition is true among states. It is partly but not entirely true of the relations between the federal and state governments. The feds can make it next to impossible for the states to refuse its lead, but this is the exception. The rule is compromise, even rejection of federal rule. Should there arise strong national sentiment for uniformity, say in regard to environmental matters or welfare programs, however, it is doubtful whether this pressure could be resisted. I will presently discuss the grounds for uniformity. It is sufficient to reiterate that central governmental compulsion is irreconcilable with competition.

*Principle of Knowledge*

The third condition of perfect competition is that actors have “complete knowledge of offers to buy and sell.” Partial to the Austrian subjective school of microeconomics myself, I think this criterion is right but overstated. After all, a basic aspect of entrepreneurship is the discovery of heretofore missing information of a kind that might not even have been available without the action of an enterprising economic agent. Study of command economies teaches me, however, the importance of market prices. Without them—that is, without widespread information on opportunities for buying and selling—much of the economy is limited to much less-efficient barter, as Adam Smith showed long ago.

Proponents of competitive federalism want to help make information available about the relative prices of governmental programs. Evaluations of programs should be multiple, varied, independent, and external. Multiplicity and variety are essential to mitigate bias. It is the residue of repeated evaluations, such as of farm subsidies or rent control, that are persuasive. Much more needs to be done, in my view, on such subjects as the cost of collecting taxes, the (dis)incentive effects, and generally what we are getting for what we are giving up. There is no magic in evaluations, which can be as contentious as the ideologies behind them. The trick is to present the costs and benefits in as revealing a manner as possible. Just as purchasing power parities are more revealing of standards of living than income per capita, so competition would be favored by creative comparisons of services versus taxes. The best comparisons are not cerebral but experiential: the ability to live in a state, to move, to try again, and so forth.

While another criterion, the divisibility of commodities, is not quite applicable to states, it is possible to distinguish states from each other. The greater the range of states’ differences and the more distinctive each state, the easier it will be for citizens to choose among them. For large differences to be maintained, however, one must also accept inequality.

*Principle of Movable Resources*

The last condition-cum-criterion of perfect competition used by economists is that “resources are movable among users.” Movability is more important than it might seem. If industry is required to use coal scrubbers so high-sulfur coal can be used, thus reducing use of low-sulfur coal, competition is ruled out. If Alaskan oil cannot be shipped to Japan, where it has the highest value, it must be sent where it can spill on American shores. For purposes of a competitive

## A DOUBLE SECURITY

federalism, impediments to the movement of people and commodities should be diminished. Restrictions on international trade are harmful in two ways: They weaken the selective mechanism, and they set a bad example for the federal system.

### A Few Favorable Considerations, Maybe

A review of conditions and considerations relevant to competitive federalism suggests that while not ideal, they are sufficient. There are obstacles but not fatal impediments. And I think current events are uniquely favorable. The collapse of communism (with its over-centralized, command economy) in Eastern Europe and perhaps its transformation in the Soviet Union make federal features more relevant than ever. Whether the Soviet Union retains most of its components depends on its ability not to decentralize decisionmaking, which the USSR has already done to various so-called republics, but to find a formula for noncentralization.

It may appear that in 1992 or earlier the European Common Market will be moving in the opposite direction—toward centralization. And in certain respects that is true. But by no means all. On the contrary, a common currency is a prerequisite for enhanced competition. “A striking feature of contemporary Europe,” Giandomenico Majone (1990) begins his prescient essay, “is the parallel movement toward greater political and economic integration, on the one hand, and toward regional decentralization on the other.” Far from being at odds, “cultural diversity is the very essence of the European identity.” As the Common Market exerts its homogenizing force, I agree with Majone, pre-existing regional diversity likely will assert itself.

What appears to be an inexorable movement toward a world economy paradoxically places a premium on flexibility. The ability to manufacture and deliver at short notice and to provide small batches of made-to-order goods is now advantageous. Thus, as Max Singer (1989) proposes for Japan (some people’s ideal of an integrated national political economy), the center should be small with most matters handled at regional and local levels. In sum, one world implies many regions, and an even larger number of localities. And what better mode of self-directed coordination than noncentralized, competitive federalism.

### But Federalism Is Incompatible with Egalitarianism

The one powerful countervailing trend is egalitarianism, as in greater equality of condition (see Wildavsky 1985). Like what? Like the movement to equalize the differences in power between men

and women, black and white, gay and straight, animals and people, parents and children, rich and poor, and more.

Of course, egalitarians say they desire diversity. And, in a way, they do. But not diversity that gives some people advantages over others. By the time one has finished narrowing differences in result, however, there is not much room for noncentralization. Greater uniformity of result can be achieved only by national laws and regulations. Allowing, indeed encouraging, localities to differentiate themselves, indeed appealing on the basis of differences, is anathema to egalitarians. They love choice but not choice that will leave those they consider disadvantaged worse off. Since every difference is a form of inequality, the only ultimately tolerable result is no difference.

The development of affirmative action programs demonstrates the point. Initially, the idea was to beat the bushes for racial minorities and women. Then there were voluntary programs, followed by all but compulsory timetables and quotas. Initially, in universities, affirmative action was to be achieved by open enrollment. Who could say that entrance tests were perfect or that early grades precisely predicted later ones? Agreed. Let us admit all comers. But then higher dropout rates must be expected. No! Intolerable! The educational system is to blame. Perhaps if undergraduates saw more graduate students of their race or gender, they would do better. No, the whole campus is hostile! Let us downgrade Western civilization ("dead white men"). Let us make faculty and administration the same racial and gender proportion as the entire population.

The question has to be faced. A competitive federalism is based on the value of equal opportunity. Nationalization is based on uniformity. This apparent contradiction was resolved by the Jeffersonians and Jacksonians. They believed that opportunity and equality were compatible provided only that the federal government did not create artificial inequalities, such as grants of corporate charters, national banks, and national debt. Nowadays their successors believe the opposite: Only if the federal government redistributes resources so as to increase equality can there be true equal opportunity. No one should imagine that the passion for equality will stop short of the federal system.

The 21st century will usher in an intensified cultural-cum-ideological struggle over federalism. Will states become administrative units of a nationalized polity to enforce equality, or will they become competitors for services and allegiances in a competitive political economy? Will the peoples of the world, having observed that central command is a self-destructive way in which to run an economy into

the ground, decide to apply the same winning formula to the polity? The "double security" referred to in this paper's title refers not only to federal and state relations but to the self-regulatory principles out of which the competing elements are constituted and renewed. Without an underlying belief in competition, including unequal results, formal federal arrangements will become a mask for national uniformity.

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