

Accommodative Capacity of Multinational States

By

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A thesis submitted in conformity with the requirements
for the degree Doctor of Philosophy

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2012

Abstract

This dissertation explains the extent and durability of the institutions of territorial autonomy in multinational states. Its main argument is that the viability of territorial autonomy hinges on the relative economic importance of the minority-inhabited region for the central government. If the fiscal resources of the minority-inhabited region are critical for the funding of the central government's policy objectives, autonomy is likely to be limited and short lived. If those resources are not as crucial for the governability of the entire state, autonomy is likely to be more extensive and durable. The importance of the minority-inhabited region depends on two sets of factors. The first is the relative level of economic development of majority and minority-inhabited areas. The second is the strategy of governance adopted by the central state elites. Strategies of governance determine the extent of the fiscal burden that the central government will place on the population of the state, thereby exerting significant influence on accommodative outcomes. The theoretical framework developed in this dissertation refers to statist (high spending) and laissez-faire (low spending) strategies of governance. The framework is tested in four multinational states: the former Yugoslavia, the former Czechoslovakia, Canada and Spain. The empirical chapters combine structured-focused comparison with

longitudinal case study analysis. The cases largely bear out the hypotheses presented in the dissertation. However, analysis of the cases also demonstrates the importance of minority-group influence at the central state level in accounting for accommodative outcomes. In cases where minority elites have extensive influence at the centre, attempts at limiting the autonomy of minority-inhabited regions tend to be unsuccessful. This thesis contributes to a greater understanding of the design and durability of the institutions of territorial autonomy, which have important consequences for the stability and viability of multinational states.

Acknowledgments

Producing this dissertation has confirmed my long-held belief that major accomplishments are never the work of any one individual. We draw energy, support, ideas and enthusiasm from so many others. For my part, I owe a massive debt of gratitude to my professors, colleagues, friends, and family.

First, I wish to thank the members of my doctoral committee at the University of Toronto. My supervisor, Jeffrey Kopstein, has supported me since before I had entered the PhD program. His first advice to me was to, for a time, let go of Russian and East European studies and learn how to do political science. To the extent to which I have accomplished this, I owe much to his valuable guidance over the years. Richard Simeon has been both a mentor and an advocate during my time in the program. In one way or another, most of my links to the scholarly world beyond the University of Toronto can be traced to him. Even when facing personal hardship, Richard continued to invest time and effort in my work, something for which I will remain thankful. David Cameron has always found time to provide feedback on drafts of my work, including this dissertation. His thoughtful and incisive comments helped focus this thesis significantly. I also thank Daniel Ziblatt and Lucan Way for fantastic, challenging comments and questions, and for contributing so much to what ended up being one of the most satisfying moments of my academic life to-date: my defense.

A number of other faculty members in the Department of Political Science have shaped how I approach academic work. I am particularly indebted to Susan Solomon for her help throughout my years in the program. Her tireless advice on all aspects of the scholarly experience has shaped both how I teach and how I think. Phil Triadafilopoulos has taught me much about the profession as well, and his encouragement has strengthened the confidence I have in my abilities. Finally, much of what I know about political science, I have learned through interaction with Joe Wong, Neil Nevitte and Louis Pauly.

Completing this dissertation would have been more trying without the help of individuals outside of the University of Toronto. César Colino of UNED (Madrid) has been the unofficial fourth member of my dissertation committee. His help with the fieldwork in Spain, and his direct, constructive comments on my dissertation, at different stages, have been invaluable. Tvrtko Jakovina and Dejan Jović helped out immensely during my work in Croatia. Alain Gagnon of UQAM has provided much advice and support. I also thank Scott Greer of the University of Michigan for his assistance with my fieldwork in Spain.

Throughout the past seven years, I have relied on the resources and assistance of a number of institutions in Canada and abroad. The Centre for European, Russian and Eurasian Studies (University of Toronto) has been a constant source of institutional and financial backing. The support of the Ethnicity and Democratic Governance project has made most of my fieldwork, and my last two years in the program, possible. Particular thanks are reserved for Bruce Berman, John McGarry, Jacques Bertrand and Jennifer Clark. I also thank the staff at the State Archives of Croatia, Zagreb, and the Archive of Yugoslavia, Belgrade. Finally, I owe a big thank you to the administrative team at the Department of Political Science, especially Joan Kallis,Carolynn Branton, Mary-Alice Bailey and Liz Jagdeo, for all their patience with

me over the years. Most of my time in the program has been funded by the Canadian government's SSHRC grants, for which I remain grateful.

The long gestation of this project has had one exceptionally fortunate side effect: I have made new friends and I have been brought closer to those I have known for much longer. They are all remarkable people who have, at different times, grounded, pushed, and supported me. Most importantly, they have been a constant reminder, by virtue of their deeds, rather than that other, and cheaper, currency, about what is important in life. I thank them all for being there for and with me, and for letting me be a part their lives. They are: Vlado Mirčeta, Davor Gardijan, Nina Knežević, Mihaela Mihai, Barbara Holcman, Zoran Oklopčić, Maja Čatić, Mike Leach, Arjun Tremblay and Mitu Sengupta.

I have learned from, shared laughs, and spent wonderful moments with so many other terrific friends and colleagues: Charmaine Stanley, Chantal Amirault, Adrian Neer, Melissa Levin, Katherine Eady, Stephen Larin, Izabela Šteflja, Lauren Lydic (who also revised parts of the dissertation), Igor Tchoukarine, Kara Santokie, James McKee, Wendy Hicks, Patricia Greve, Tere Kramarz, Rebecca Sanders, Ethel Tungohan, Bill Flanik, Sebastian Baglioni, Elena Maltseva, Mark Purdon, Olga Klymenko, Seung Hyok Lee, Kim Carter, Andy Paras, Sanjay Jeram, Cheryl Auger, Vuk Radmilović (and Vedrana Lukić), Deb Thompson, Zoran Bojinović, and the Guadalajara contingent, especially Rémi Léger, Jean-François Caron, Jean Proulx and Maja Ombašić. Without them, graduate school would have been a notably less pleasant experience. I have also benefited from the unselfishly offered advice and help from a number of my senior colleagues, particularly Luc Turgeon, Essyn Emurla and Petr Kafka. The final push 'over the top' would have been far more difficult without Dragana Obradović and Adina Ilea.

Edith Klein belongs in a category all by herself. I consider myself lucky and privileged to know her. She has been a friend and a mentor in the truest sense of the word, and I continue to learn from her about life and academia. She has also edited most of this dissertation, and in a manner so characteristic of her: without sparing time or effort, but also without sugarcoating for a second. During my first four years in the program, Lisa Basta provided the stability and serenity without which I most likely would not have been able to follow through. This is as much her victory as it is mine. At the very end of my grad-school journey, anxieties about the near future and things beyond were replaced by a curious optimism and joy. Yoanna Terziyska must take a good chunk of credit for this transformation.

Final words are reserved for Majda and Gojko Basta. The breakup of the country we once called home has, in the end, given me an opportunity to start a new life in another place, less encumbered with the past and with a more comfortable present. Yet my parents, like hundreds of thousands of others, have been deprived of some of the best years of their lives. All of my work, including this dissertation, has been motivated by the desire to understand what happened to them, and how it could be prevented from happening to others in the future. The *full* magnitude of the burden that life has placed on them since 1991 has only recently become apparent to me. Their fortitude in light of such challenges is humbling. People who have given me so much, and under such adverse circumstances, deserve a much better tribute than to have a flawed work such as this dissertation dedicated to them. But it is done with all the love that I can muster within me. Ovo je za vas. Volim vas oboje.

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List of Abbreviations

AC	–	Autonomous Community
B&B	–	The Royal Commission on Bilingualism and Biculturalism
CCF	–	Cooperative Commonwealth Federation
CCP	–	Czechoslovak Communist Party
CDP	–	Civic Democratic Party
CF	–	Civic Forum
CiU	–	Convergència i Unió (Convergence and Union)
CPY	–	Communist Party of Yugoslavia
EPF	–	Established Programs Financing
ETA	–	Euskadi ta Askatasuna (Basque Homeland and Freedom)
EU	–	European Union
GDP	–	Gross Domestic Product
GIF	–	General Investment Fund
GSP	–	Gross Social Product
HCA	–	Health Canada Act
IMF	–	International Monetary Fund
LCY	–	League of Communists of Yugoslavia
LOAPA	-	Ley Orgánica de Armonización del Proceso Autonómico (Organic Law on the Harmonization of the Process of Autonomy)
MDS	–	Movement for Democratic Slovakia
OECD	–	Organisation for Economic Co-operation and Development
PAV	–	Public Against Violence
PCE	–	Partido Comunista de España (Communist Party of Spain)
PLQ	–	Parti Libéral du Québec (Liberal Party of Quebec)
PP	–	Partido Popular
PQ	–	Parti Québécois
PSC	–	Partit dels Socialistes de Catalunya (Socialists' Party of Catalonia)
PSOE	–	Partido Socialista Obrero Español (Spanish Socialist Workers' Party)
UCD	–	Unión de Centro Democrático (Union of the Democratic Centre)
UK	–	United Kingdom

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CHAPTER 1:

Accommodating Minority Nations in Multinational States

For as long as nationalism has been a common principle of political legitimization, the nation-state has been more of an aspiration than social reality.¹ Most modern states include at least one group of significant size, usually a demographic minority, whose members consider themselves to be in some way distinct from the broader society.² Such differences often become politicized and, where the population in question is sufficiently regionally clustered, can lead to demands for territorial autonomy or, in some cases, independent statehood.

Over the past two centuries, governments of multinational states³ have responded to such centrifugal pressures in a variety of ways, from genocides and ethnic cleansing, through attempts at assimilation, to various methods of accommodation.⁴ On rare occasions, disaffected groups have succeeded in attaining political independence, though

¹ Marvin W. Mikesell, "The Myth of the Nation State," *Journal of Geography* 82, no. 6 (1983): 257-260. A number of theorists explicitly view nationalism as a key pillar of modern state legitimacy. See John Breuilly, *Nationalism and the State*, 2nd ed. (Manchester: Manchester University Press, 1993); E. J. Hobsbawm, *Nations and Nationalism Since 1780: Programme, Myth, Reality* (Cambridge: Cambridge University Press, 1990); Nicolas Lemay-Hébert, "Statebuilding without Nation-building? Legitimacy, State Failure and the Limits of the Institutional Approach," *Journal of Intervention and Statebuilding* 3, no. 1 (2009): 21.

² Ted Robert Gurr, *Minorities at Risk: A Global View of Ethnopolitical Conflicts* (Washington, D.C: United States Institute of Peace Press, 1993); James D. Fearon, "Ethnic and Cultural Diversity by Country," *Journal of Economic Growth* 8, no. 2 (June 1, 2003): 195-222.

³ Kymlicka defines a nation as "a historical community, more or less institutionally complete, occupying a given territory or homeland, sharing a distinct language and culture." Will Kymlicka, *Multicultural Citizenship: A Liberal Theory of Minority Rights*, (Oxford: Clarendon Press, 1995), 11. He then notes that a state containing more than one such community is "not a nation-state but a multinational state" (Ibid.). For a similar definition, see Tully. James Tully, "Introduction," in *Multinational Democracies*, ed. Alain Gagnon and James Tully (Cambridge: Cambridge University Press, 2001). Keating prefers the term 'plurinational' over 'multinational', since it suggests that individuals might have overlapping political identities (for example, one could be both Basque and Spanish). Michael Keating, *Plurinational Democracy: Stateless Nations in a Post-Sovereignty Era* (Oxford, England: Oxford University Press, 2001), 19. For conceptual and methodological problems with the notion of a multinational state, see Nenad Stojanović, "When is a Country Multinational? Problems With Statistical and Subjective Approaches," *Ratio Juris: An International Journal of Jurisprudence and Philosophy of Law* 24, no. 3 (Forthcoming 2011): 267-83.

⁴ John McGarry and Brendan O'Leary, "The Political Regulation of National and Ethnic Conflict," *Parliamentary Affairs* 47, no. 1 (1994): 94-115.

often through costly armed struggle.⁵ As a compromise between the destabilizing and morally problematic extremes of assimilation and secession, accommodation presents an attractive option for many policy-makers and scholars.

Territorial autonomy has been a particularly prominent option in accommodating minority demands. Many territorially concentrated groups demand this type of autonomy as a way to protect their collective interests more effectively. In a significant number of cases, such demands have been met, though not always to the full satisfaction of the claimants. While scholars have invested significant efforts in trying to understand the effect of territorial autonomy on the stability of multinational states,⁶ far less attention has been paid to the ability of governments to grant and sustain autonomy in the first place.⁷ Yet, variations in the degree of autonomy might influence multinational state stability itself. For example, an increase in autonomy might assuage minority fears. On the other hand, progressive reduction of a group's ability to govern its own affairs might provoke hostile reactions towards the common state, as will become clear in the chapters to follow.⁸ This subject therefore deserves more scholarly attention than it has garnered thus far.

My dissertation addresses the gap in the literature on territorial autonomy by exploring a set of structural factors influencing the accommodative capacity of governments in multinational states. I use the term 'accommodative capacity' as

⁵ Donald L Horowitz, *Ethnic Groups in Conflict, 2nd Edition* (Berkeley: University of California Press, 2000), 265; Michael Hechter, "The Dynamics of Secession," *Acta Sociologica* 35, no. 4 (1992): 267-283.

⁶ Jan Erk and Lawrence Anderson, "The Paradox of Federalism: Does Self-Rule Accommodate or Exacerbate Ethnic Divisions?" *Regional & Federal Studies* 19, no. 2 (2009): 191.

⁷ For a rare exception, see David A Lake and Donald Rothchild, "Territorial Decentralization and Civil War Settlements," in *Sustainable Peace: Power and Democracy After Civil Wars*, ed. Philip G Roeder and Donald S. Rothchild (Ithaca, N.Y: Cornell University Press, 2005).

⁸ I borrow the term 'common state' from Philip Roeder. It refers to the institutions of governance covering the entire territory of a multinational state. Philip G Roeder, *Where Nation-States Come from: Institutional Change in the Age of Nationalism* (Princeton: Princeton University Press, 2007), 12.

shorthand for the tendency of central governments to extend greater or lesser autonomy to minority-inhabited territory over time.⁹ Since autonomy is a multi-faceted concept, I emphasize that I will focus on those aspects relevant to the sphere of economic policy and related fields. I start with the premise that governing elites in multinational states face two interrelated sets of challenges: they must address the nationalist demands of constituent groups where these are voiced (what I call the accommodation imperative), while simultaneously engaging in the business of day-to-day governance (the governance imperative). This obvious point, often overlooked in the literature, has significant theoretical and practical implications. Foremost among these, from the perspective of the common state elites, is that accommodation may impinge on the government's ability to provide public goods in a timely and effective manner. The disruptive potential of autonomy is a particularly salient political issue if we remember that governments' effectiveness in the provision of public goods influences the elites' ability to maintain their hold on political power.¹⁰ Therefore, the calculus behind elite considerations about whether or not to accommodate demands for territorial autonomy should be influenced by the extent to which such accommodation shapes the effectiveness of the governing apparatus.

Since meaningful political autonomy entails fiscal autonomy as well,¹¹ the common state elites must evaluate whether or not they can afford to forgo the resources and economic control that are to be re-directed to the government of the autonomous unit

⁹ I provide a more systematic definition of the dependent variable in Chapter 2.

¹⁰ This point relates to 'output legitimacy' of governments. Scharpf distinguishes between input-based legitimacy (related to the patterns of inclusion in the decision-making process) and output-based legitimacy (the performance of the government in terms of its effectiveness in providing public goods to relevant constituencies). Fritz Wilhelm Scharpf, *Governing in Europe: Effective and Democratic?* (Oxford: Oxford University Press, 1999).

¹¹ See Chapter 2 for a discussion.

in question.¹² Hence, I argue that the more important a minority group's resources are for the governing of the entire state, the more limited the accommodation is likely to be. Conversely, if the resources of the minority group are not central to the governance of the entire state, the more extensive the autonomy is likely to be.

Therefore, the accommodative capacity of governments in multinational states depends on the relative fiscal and economic importance of the majority- and minority-inhabited regions for the functioning of the entire polity. The "importance" of regions, in turn, rests on the following two factors: the relative levels of regional economic development and the governing strategy of central state elites. Where the majority-inhabited territory is economically more developed relative to the other region(s), the central government can afford to grant autonomy to the less developed minority-inhabited regions because it will be able to rely on the majority group's resources to fund its work. However, if the majority-inhabited region is relatively less well-off, the government would have to rely disproportionately on the minority group resources. Yet, such arrangements are politically problematic given that minority groups are far less likely to identify with the common state than their majority counterparts.¹³ Minorities are therefore usually less willing to finance the functioning of the common state. Under this scenario, the central government would be less likely to accede to extensive autonomy for the minority-inhabited region.

¹² As I will show below, another issue with accommodative implications is whether or not the resources granted to the autonomous unit will be used in correspondence with the governing strategy set by the central government. If they are, autonomy should be less problematic. However, in certain scenarios, which will be specified in this dissertation, one can virtually guarantee that the resources and economic levers of the autonomous unit will be used to undercut the policy preferences of the central political elites.

¹³ Zachary Elkins and John Sides, "Can Institutions Build Unity in Multiethnic States?" *American Political Science Review* 101, no. 4 (2007): 693-708.

The second factor influencing the relative importance of majority- and minority-inhabited regions is the governing strategy adopted by the central state elites. Governing strategies are broad policy paradigms, expressed through particular sets of policies, which determine how the fundamental problems of governance are to be addressed. These strategies indicate the intensity of the fiscal burden that the central government is likely to place on the population. In the interest of parsimony, I distinguish between statist and laissez-faire strategies of governance. Each type of strategy entails a different degree of government intervention in the society and therefore different fiscal demands by the common-state government. I combine these two sets of factors to come up with the following hypotheses (see Table 1.1). The accommodative capacity of governments in multinational states will be greater where a state contains a more developed majority region and statist strategies of governance or where the less developed majority region is combined with laissez-faire strategies of governance. Conversely, a state will have lower accommodative capacity if it combines a more developed majority region with laissez-faire governing strategies and a less developed majority region with a statist approach to governance. The theoretical reasoning behind these hypotheses is offered in the following chapter.

I do not consider this to be an exhaustive explanation of accommodative capacity. How flexible a central government's response will be may depend on a number of additional factors. Central government elites may harbour more or less accommodating views on the appropriate design of the state.¹⁴ Another important factor is the leverage that the political representatives of minority nations have vis-à-vis the common state

¹⁴ For a persuasive argument about the role of elites' ideas about the state in the breakup of the USSR and Yugoslavia, see Veljko Vujacic, "Perceptions of the State in Russia and Serbia: The Role of Ideas in the Soviet and Yugoslav Collapse," *Post - Soviet Affairs* 20, no. 2 (2004): 164-194.

government. This might depend on the strength of minority parties, their role in the political system at a given moment, or minority support for secession. In constructing the causal narrative for each of the cases I have selected, I have integrated these factors, showing that they are, at times, complimentary to the explanation offered in this work. Nevertheless, as I demonstrate in the remainder of this dissertation, the political economy factors outlined here present real structural constraints on the ability of the central state elites to satisfy minority demands for territorial autonomy. While these constraints may be tempered or reinforced by other variables, they exert their own causal force on patterns of autonomy.

Table 1.1 - Hypotheses

	Underdeveloped Majority	Developed Majority
Statist Strategies	Low Capacity	High Capacity
Laissez Faire Strategies	High Capacity	Low Capacity

The above hypotheses necessitate an examination of four cases. I have selected Czechoslovakia, Yugoslavia, Spain and Canada, with each country approximating one of the four options outlined in the table above. Given the small universe of cases, finding fully comparable examples was impossible. Nonetheless, all four of these countries share important similarities that make the comparison methodologically feasible. I will discuss

both the similarities and differences among these cases in some detail in the following chapter.

The approach taken in this study combines small-*n* comparison with within-case, longitudinal analysis. The comparison permits the researcher to establish the existence of the correlation between the independent and dependent variables. The within-case analysis explores more deeply the conclusions of the comparison by helping establish the causal mechanisms through which the independent variables lead to the outcomes in question. Following the rules of the ‘structured, focused’ comparative approach,¹⁵ the causal narrative in each case is driven by the same question: how did the particular combination of relative levels of regional development and governing strategy influence the government’s ability to extend and sustain territorial autonomy to relevant minority groups. Even so, constructing a credible explanatory narrative has necessitated periodic reference to the broader context in each case. Briefly considering factors external to the theoretical model offered in this work has produced a more complete, context-sensitive explanation without unduly compromising the relative simplicity of the model itself.

This work has significant theoretical and practical implications. As already noted, most scholars studying territorial accommodation have tended to focus on the *effects* of territorial autonomy on multinational polities. Very few have ventured to explain how autonomy emerges in the first place, and what accounts for its extent and durability. My work therefore contributes to a better understanding of how to manage difference in multinational settings, with the ultimate goal of improving the theoretical knowledge of the origins and functioning of territorial autonomy. The analysis presented herein also

¹⁵ Alexander L George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge, Mass: MIT Press, 2004), 67.

integrates ‘ethnic’¹⁶ and ‘non-ethnic’¹⁷ factors, demonstrating how the broader political context interacts with identity politics to influence institutional development. In this sense, my dissertation is a challenge to explanations of ethnopolitical outcomes that privilege ethnopolitical causes. Moreover, this thesis also makes a contribution to the understanding of the modern *multinational* state, a breed of polity which has been neglected not only in classical works on state formation but also in more recent scholarship.¹⁸ In terms of policy significance, the conclusions presented in this work should increase policy-makers’ awareness of the possible scope and limits of autonomy in particular contexts, by pointing to the complex interaction between the politics of ethno-nationalism and the political economy of the state.

At this point, a caveat is in order. I am not making an economic argument. My analysis does not suggest that the politics of nationalism is reducible to the politics of resource distribution. Rather, I am offering a political-economy explanation of accommodative capacity by noting the importance that economic resources play in the political strategies of both the common state elites and the autonomy-seeking leaders of minority nations. Common state elites require material resources in order to both maintain their own hold on power and maintain the legitimacy of the entire state among its major constituent groups. Autonomy-minded elites also require fiscal resources, which

¹⁶ The ‘ethnic’ distribution of wealth.

¹⁷ Central governments’ strategies of governance.

¹⁸ See Thomas Ertman, *Birth of the Leviathan: Building States and Regimes in Medieval and Early Modern Europe* (Cambridge, UK: Cambridge University Press, 1997); Theda Skocpol, “Bringing the State Back In: Strategies of Analysis in Current Research,” in *Bringing the State Back In*, ed. Peter B Evans, Dietrich Rueschemeyer, and Theda Skocpol (Cambridge: Cambridge University Press, 1985); Charles Tilly, ed., *The Formation of National States in Western Europe* (Princeton: Princeton University Press, 1975). For some notable exceptions, see Michael Mann, *The Sources of Social Power, Vol. 2* (Cambridge: Cambridge University Press, 1986); Stein Rokkan, *Economy, Territory, Identity: Politics of West European Peripheries* (London: Sage Publications, 1983). For the more recent scholarship, see Tuong Vu, “Studying the State through State Formation,” *World Politics* 62, no. 1 (2010): 148-175.

they can use to mobilize their constituents behind nationalist projects. Moreover, there can be no autonomy without an adequate fiscal basis.¹⁹ Financial resources are therefore instrumental for both sets of elites.

As the rest of this chapter will show, few researchers have attempted to explain the extent and sustainability of accommodative arrangements in multinational states. Scholars of federalism have advanced our knowledge of decentralization in nationally homogeneous federations, but multinational federations face different challenges and political dynamics and therefore merit separate study.²⁰ On the other hand, much of the conflict-management scholarship has tended to focus on post-conflict situations. Conclusions made on the basis of these studies have fairly little to say about peacetime societies facing nationalist pressures.

1. 1. Review of Literature

Autonomy Defined

Group-based autonomy is an important method of managing competing national projects within a single political community. Simply put, group autonomy means limited self-rule.²¹ Lapidoth conceives of self-rule as a community's ability to legislate and implement laws according to the wishes of its representatives. Autonomy is *limited* self-rule because the government of an autonomous unit can make decisions only with respect to a limited number of policy areas. In addition, restrictions are often placed on the extent

¹⁹ See Chapter 2.

²⁰ For instance, national federations, such as Germany or the United States, do not face even a theoretical possibility of one of their constituent units seceding.

²¹ Ruth Lapidoth, *Autonomy: Flexible Solutions to Ethnic Conflicts* (Washington, DC: United States Institute of Peace Press, 1996), 33.

to which the autonomous government can decide on particular policy issues independently. At the same time, in other policy areas, an autonomously governed community is subject to the policy-making of another authority over which it has some, but not full, control.²²

Group autonomy is important even in democratic regimes, since *individual* political rights do not guarantee that a group's interests will be adequately addressed in government policy. If a particular ethnic or linguistic group comprises a minority of the population in a democracy, without political autonomy its members may not be able to govern themselves *as a group separate from others* on certain important policy matters. Under such conditions, there is a danger that minority group interests might be neglected by the political elites drawn predominantly from the majority population.²³ Short of secession, autonomy becomes a realistic and desirable option for ensuring that at least the most fundamental demands of the minority group are met. While some scholars argue that one cannot speak of meaningful autonomy if it is not backed by constitutional guarantees, this need not be so.²⁴ Even if autonomy is not constitutionally entrenched, a central government will be reluctant to encroach on the prerogatives of a community if this is politically costly or if it contradicts the political norms developed around the issue.²⁵

Attempts to operationalize the concept of autonomy lead one to acknowledge its multi-faceted character. There are at least three discrete dimensions of autonomy: the

²² In other words, the central government draws its legitimacy from a state-wide community, which includes, but is not limited to, the autonomously governed community.

²³ For a powerful critique of majoritarian democracy in ethnically "divided" societies, see Arend Lijphart, *Democracy in Plural Societies: A Comparative Exploration* (New Haven: Yale University Press, 1977).

²⁴ For a discussion of constitutional guarantees as they apply to the definition of federalism, see John McGarry and Brendan O'Leary, "Territorial Pluralism: Its Forms, Flaws, and Virtues" (Unpublished paper presented at the Assessing Territorial Pluralism, Kingston, Ontario, May 2008).

²⁵ Of course, the costliness of such a measure might be dependent on the norms themselves.

political dimension; the policy dimension, or the number and importance of policy fields which the autonomous government controls; and the economic or fiscal dimension.²⁶ Thus, if an autonomous government is politically independent of its central counterpart, if it possesses authority to make laws with respect to a number of important policy areas, and if it is fiscally independent, its autonomy is extensive. Conversely, if, for example, an autonomous body representing a given community is only able to implement policy, but can neither decide on its content nor fully fund it, its autonomy is largely administrative. Likewise, if a given unit is politically autonomous, but controls only a few policy areas of limited importance, its autonomy is circumscribed. Finally, if an autonomous governing body has legal jurisdiction over many policy areas and a full arsenal of institutions with which to make policy, but lacks independent sources of funding, it will be fiscally dependent on the central government and its autonomy will be limited.

Relevance of Territorial Autonomy

Groups can exercise limited self-rule in different ways. Scholars generally distinguish between territorial and non-territorial forms of autonomy.²⁷ Non-territorial (usually cultural) autonomy refers to the type of self-rule where autonomous institutions make and implement policy only for those individuals belonging to a particular group, regardless of their place of residence within a given territory. Territorial autonomy, on the other hand, is exercised through institutions which make and enforce rules for all persons inhabiting a delimited part of a state's territory, regardless of their group affiliation.

²⁶ These dimensions of autonomy will be discussed in greater detail in Chapter 2.

²⁷ Lapidoth, *Autonomy*.

Karl Renner and Otto Bauer noted that territorial autonomy was inherently more conflictual than its non-territorial opposite. Their objections related primarily to the difficulty of territorially separating populations of different ethnic origins.²⁸ If territorial autonomy were to be implemented where different groups were geographically interspersed, many members of each constituent group would be governed by institutions in which they could only gain minority representation. The resentment of such groups would contribute to political tensions despite, or possibly precisely because of, territorial autonomy.

Rather than making territory the locus of governance, they proposed that sub-state institutions should govern particular groups directly.²⁹ Each group would regulate its own affairs concerning cultural issues, and would pay taxes and receive services separately from others.³⁰ A similar idea of non-territorial autonomy was later propounded by Arend Lijphart in his theory of consociational democracy. For Lijphart, each of the communities whose leaders engaged in power-sharing at the centre would have to be autonomous in a number of spheres.³¹ If autonomy were institutionalized in this way, an individual's geographic location would matter little since they would still receive the benefits of group self-rule. Yet, compared to its territorially based alternative, cultural autonomy holds few advantages for minority groups.

²⁸ They were both citizens of Austria-Hungary. Their work was heavily influenced by that country's politics of ethnic demography.

²⁹ Theodor Hanf, "Reducing conflict through cultural autonomy: Karl Renner's contribution," in *State and Nation in Multi-Ethnic Societies: The Breakup of Multinational States*, ed. Uri Ra'an (Manchester: Manchester University Press, 1991); Otto Bauer, *The Question of Nationalities and Social Democracy* (Minneapolis: University of Minnesota Press, 2000).

³⁰ Bauer, *The Question of Nationalities and Social Democracy*, 281–85.

³¹ Lijphart, *Democracy in Plural Societies*, 41–44. Lijphart actually draws parallels between his concept of 'segmental autonomy' and the Austro-Marxists' cultural autonomy through 'personality principle.'

The most obvious problem with cultural autonomy is logistical: it is difficult and costly to provide separate ‘cultural services’ to micro-minorities strewn across the common state. A more important objection is that proponents of cultural autonomy underestimate the importance of non-cultural issues for nationalist politicians. While having separate educational institutions for different groups may be broadly feasible under specific conditions,³² it would be far more difficult to have separate institutions governing, for instance, social policy, infrastructure, or economic planning. Most public goods are non-rival and non-divisible, meaning that their benefits would be difficult to divide among groups inhabiting the same space.³³ Yet, issues such as social programs, the economy, and infrastructure are seldom purely technical. Rather, they often strongly relate to identity politics and can act as lightning rods for ethno-national grievances.³⁴ Territorial autonomy is therefore a much more feasible alternative to cultural autonomy, since it ensures that one group does not free ride on the resources of another in a particular area.

Non-territorial autonomy is also problematic because it contains weak mechanisms for group boundary maintenance. Non-territorial autonomy makes it politically and practically difficult to compel all members of the minority group to participate in minority-group institutions, particularly if members of minorities can access tangible benefits through assimilation into the majority group. Cultural autonomy is therefore likely to be based on voluntary participation of minority group members. Yet,

³² Such as where different populations are sufficiently territorially concentrated in local communities to merit separate schools, for instance.

³³ For definitions and a discussion, see Michael. Parkin and Robin. Bade, *Economics: Canada in the Global Environment* (Don Mills: Addison-Wesley, 1997), 416.

³⁴ Donald Horowitz notes that purely ‘technical’ issues can assume great importance if refracted through the prism of ethnopolitics. Horowitz, *Ethnic Groups in Conflict, 2nd Edition*, 8.

the survival of collective linguistic identity, for instance, is too important and too tenuous to be left to the voluntary activities of members of a particular group.³⁵ As David Laitin shows, individuals will switch linguistic allegiance if it makes strategic sense for them to do so.³⁶ As language changes, identity might change as well. This is precisely the problem that the Québécois nationalists believed they faced during the 1950s, as increasing numbers of Francophone workers started to view English as a desirable language of communication.³⁷ Territorial autonomy gives minority nationalist politicians a legitimate tool to legislate the use of the minority language in a particular territory, and *thereby make group boundaries compulsory*. From the minority nationalist standpoint, this is preferable to relying on group pressures and other informal means of enforcing them. Thus, territorial autonomy, unlike its cultural counterpart, can address the collective action problem inherent in group mobilization by providing effective policing of group members.³⁸ In Quebec, the provincial government passed laws ensuring the continued relevance of French as a language of government and business.³⁹

³⁵ This is the classic collective action problem. Mancur Olson, *The Logic of Collective Action; Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965).

³⁶ Of course, this does not happen automatically. A ‘tipping point’ must be reached before group members start ‘defecting’ en masse. David D Laitin, *Identity in Formation: The Russian-Speaking Populations in the Near Abroad* (Ithaca: Cornell University Press, 1998), 23.

³⁷ Michael D Behiels, *Prelude to Quebec’s Quiet Revolution: Liberalism Versus Neo-Nationalism, 1945-1960* (Kingston: McGill-Queen’s University Press, 1985), 40.

³⁸ The problem could be presented in the following terms: how to ensure that members of minority groups continue to preserve their separate culture in the face of strong assimilatory pressures from the majority culture. If assimilation pays individually, then it is likely that many group members will hedge by, for instance, having their children learn the language spoken by the majority, and so on. The collectively rational goal of identity preservation might thereby be eroded. On the importance of group boundaries, see Fredrik Barth’s pioneering work. Fredrik Barth, ed., *Ethnic Groups and Boundaries. The Social Organization of Culture Difference*. (Bergen: Universitetsforlaget, 1969). For a more recent literature, see Jimmy M. Sanders, “Ethnic Boundaries and Identity in Plural Societies,” *Annual Review of Sociology* 28 (2002): 327-357.

³⁹ William D Coleman, “From Bill 22 to Bill 101: The Politics of Language Under the Parti Québécois,” *Canadian Journal of Political Science* 14 (1981): 459-485.

Territorial autonomy presents other tangible advantages for nationalist politicians. Control of territory may strengthen the political leverage of nationalist entrepreneurs vis-à-vis the central government. If the minority-inhabited region contains important natural resources, or if its location is of strategic importance (containing critical transportation hubs, such as ports or navigable rivers), territorial autonomy might enhance the influence that nationalist politicians have in negotiations with the common state elites.⁴⁰

The symbolic importance of land in national narratives gives territorial autonomy yet another advantage over non-territorial modes of limited self-rule. Students of ethno-nationalism often neglect the role that territory plays in the construction of group identity.⁴¹ Depending on the particular pattern of national development, a given geographic area might have a significant place in the collective imagination of a minority group. White terms such strong emotional tie to a place as “topophilia.”⁴² This attachment to territory varies from nation to nation,⁴³ but where it is significant, one could expect it to contribute to demands for territorially based autonomy. Achieving or defending territorial autonomy could consequently boost the political fortunes of nationalist entrepreneurs.

The importance of territory for nationalists is bolstered by the explicitly territorial nature of the modern state system. As Ruggie notes, since the fifteenth century territorial

⁴⁰ Marc Weller and Stefan Wolff, “Self-determination and Autonomy: A Conceptual Introduction,” in *Autonomy, Self-Governance, and Conflict Resolution: Innovative Approaches to Institutional Design in Divided Societies*, ed. Marc Weller and Stefan Wolff (London: Routledge, 2005), 5.

⁴¹ Oren Yiftachel, “Territory as the Kernel of the Nation: Space, Time and Nationalism in Israel/Palestine,” *Geopolitics* 7, no. 2 (2002): 221.

⁴² George W. White, *Nation, State, and Territory: Origins, Evolutions, and Relationships* (Lanham: Rowman & Littlefield Publishers, 2004), 46.

⁴³ The example of Kosovo in the Serbian national narrative springs to mind. Florian Bieber, “Nationalist Mobilization and Stories of Serb Suffering: The Kosovo myth from 600th anniversary to the present,” *Rethinking History: The Journal of Theory and Practice* 6, no. 1 (2002): 95. Another example is that of Israel/Palestine in the national consciousness of Israeli Jews and Palestinian Arabs. See Yiftachel 2002. Yiftachel, “Territory as the Kernel of the Nation.”

exclusivity slowly emerged as a key norm of organization in what would become the international state system.⁴⁴ In the aftermath of the French Revolution, the modern state increasingly came to be legitimized as the embodiment and the defender of the nation. Since the state was itself a territorially-bound political organization, nationalism was closely related to territoriality as well.⁴⁵ This norm of territoriality was later appropriated by many stateless nationalist movements. Nationalist reasoning suggests that a nation is not ‘complete’ without controlling a territory of its own, even if such control does not amount to full sovereignty.

For all of the above listed reasons, the political representatives of minority nations tend to prefer territorial over non-territorial autonomy. For Lapidoth, territorial autonomy is “an arrangement aimed at granting to a group that differs from the majority of the population in the state, but that constitutes the majority in a specific region, a means by which it can express its distinct identity.”⁴⁶ In its place, I offer a simpler and more specific definition. Territorial autonomy is a type of limited self-rule where the governing institutions exercise authority not over a particular group, but over all inhabitants of an explicitly delineated geographic area. Usually, the group on whose behalf the autonomy arrangements are implemented constitutes at least a plurality, if not an outright majority, of the population of the designated territory.

In the previous section, I have listed three of the basic dimensions of autonomy. These apply equally to the territorial form of limited self-rule. Thus, in order to be autonomous, a regional government should have final say over at least some areas of

⁴⁴ John Gerard Ruggie, “Territoriality and Beyond: Problematizing Modernity in International Relations,” *International Organization* 47, no. 1 (Winter 1993): 139-174.

⁴⁵ A. Murphy, “National Claims to Territory in the Modern State System: Geographical Considerations,” *Geopolitics* 7, no. 2 (2002): 195.

⁴⁶ Lapidoth, *Autonomy*, 33.

jurisdiction. It should also possess the ability to legislate and implement laws, as well as the financial, organizational, and human resources necessary for such implementation. As with autonomy writ large, so with territorial autonomy, there are different degrees of autonomous rule, ranging from administrative autonomy to full-fledged federalism. In classical federations, both levels of government are endowed with the institutional and juridical attributes of statehood, with the exception of the ability to make foreign, defence, and monetary policy, all of which are the exclusive preserve of the central government.⁴⁷ Of course, not every type of territorially based devolution of power is designed to accommodate ethnic difference. It is only when a territorial unit has been deliberately designed in order to address the aspirations of a particular group for self-government that we can speak of accommodation. A system in which extensive autonomy is granted to at least one such unit can be called ethnofederal.⁴⁸ I will return to a more detailed examination of the dimensions of territorial autonomy in Chapter 2.

Despite the prominence of territorial autonomy as an accommodative device, there is little consensus about its impact on the stability and survival prospects of multinational states.⁴⁹ Some scholars argue that autonomy, while far from being sufficient, is a necessary precondition for stable multinational polities.⁵⁰ As I have shown in the foregoing discussion, minority groups often demand territorial autonomy because

⁴⁷ Ronald L Watts, *Comparing Federal Systems*, 2nd ed. (Montreal: McGill-Queen's University Press, 1999), Ch. 3.

⁴⁸ Henry E. Hale, "Divided We Stand: Institutional Sources of Ethnofederal State Survival and Collapse," *World Politics* 56, no. 2 (2004): 167.

⁴⁹ Erk and Anderson, "The Paradox of Federalism"; John McGarry, Brendan O'Leary, and Richard Simeon, "Integration or accommodation? The enduring debate in conflict regulation," in *Constitutional Design for Divided Societies: Integration or Accommodation?*, ed. Sujit Choudhry (Oxford: Oxford University Press, 2008).

⁵⁰ Kymlicka has noted that "federalism may be the best available response to ethnocultural pluralism, but the best may not be good enough." Will Kymlicka, "Is Federalism a Viable Alternative to Secession?" in *Theories of Secession*, ed. Percy B Lehning (London: Routledge, 1998), 111.

they believe that, short of independence, this is the best way to ensure the protection of their political, cultural, and economic interests. Proponents of this type of accommodation argue that granting territorial autonomy has the potential to de-radicalize minority groups, or prevent their radicalization in the first place, by removing an important source of grievance.⁵¹ Though autonomy does not guarantee stability, its outright rejection may contribute to the escalation of conflict between minorities on the one hand, and majorities or the central government on the other. Some proponents of accommodation note that territorial autonomy cannot lead to stability if it is not accompanied by power sharing at the central state level.⁵² They argue that if a given minority group has little influence over the policies implemented by the central government, autonomy will do little to address its sense of marginalization.

On the other hand, analysts sceptical of accommodation argue that territorial autonomy contributes to long-term instability of multinational states.⁵³ This claim has two bases. First, ethnically-based autonomy entrenches separate group identity and makes the political integration of claimant groups more difficult. Second, separate institutions of governance provide ethnic entrepreneurs with the institutional resources with which they can more easily undermine the state. I believe that only the second of these two claims is correct. Distinct group identity can emerge and survive even without separate institutions

⁵¹ For a fairly representative sample of arguments of this nature, see Katharine Adeney, *Federalism and Ethnic Conflict Regulation in India and Pakistan*. (New York: Palgrave Macmillan, 2007); Nancy Bermeo, "The Import of Institutions," *Journal of Democracy* 13, no. 2 (2002): 96-110; Gurr, *Minorities at Risk*; Alfred C. Stepan, "Federalism and Democracy: Beyond the U.S. Model," *Journal of Democracy* 10, no. 4 (1999): 19-34. Lijphart viewed ethnofederalism as a form of consociationalism and therefore as a viable accommodationist option. Lijphart, *Democracy in Plural Societies*.

⁵² McGarry and O'Leary, "The Political Regulation of National and Ethnic Conflict," 112.

⁵³ See, for example, Eric A. Nordlinger, *Conflict Regulation in Divided Societies* (Cambridge: Center for International Affairs, Harvard University, 1972); Philip G Roeder, "Soviet Federalism and Ethnic Mobilization," *World Politics* 43, no. 1991 (1991): 196-232; Valerie Bunce, *Subversive Institutions: The Design and the Destruction of Socialism and the State* (Cambridge: Cambridge University Press, 1999); Jack L Snyder, *From Voting to Violence: Democratization and Nationalist Conflict* (New York: Norton, 2000).

of governance. This was the case with the national ‘awakening’ among the smaller Central European nations.⁵⁴ Furthermore, denying self-government and recognition to already ‘formed’ nations or ethnic groups is not guaranteed to extinguish their identity, as the cases of the Turkish Kurds, and the Spanish Basques and Catalans during Franco’s rule show.

On the other hand, autonomy does make it easier for ethnic entrepreneurs both to mobilize followers against the common state and, if it is their goal, to secede. Rather than having to build institutions of governance from scratch, political leaders of autonomous regions have ready-made sinews of political power and the administrative capacity necessary to run the day-to-day affairs of the new state. Central elites’ apprehension about granting territorial autonomy is therefore understandable. Yet in denying autonomy, leaders of multinational states might be faced with potentially explosive minority reaction.

Regardless of one’s position on the relative costs or benefits of territorial autonomy as a conflict-management device, the fact that it has been frequently used for this purpose merits a more detailed study of its sources and sustainability. The following section examines three strands of political science literature which have the potential to contribute to such an effort. Scholars of federalism have long debated the roots of federal bargains, as well as the factors contributing to their sustainability over time. They have tended to focus on the emergence of federalism in nationally homogeneous societies, rather than on territorial decentralization as an accommodative tool in multinational

⁵⁴ Miroslav Hroch, *Social Preconditions of National Revival in Europe: A Comparative Analysis of the Social Composition of Patriotic Groups Among the Smaller European Nations* (New York: Columbia University Press, 2000).

settings.⁵⁵ Yet, ethnofederal arrangements are subject to quite different dynamics than federal systems which do not strive to accommodate ethno-national difference.

Students of ethnic conflict have explored territorial accommodation in a fairly cursory manner, treating regional decentralization as simply one of many ways in which conflicts can be brought to an end. They have also tended to study the effects of decentralization rather than its dynamics. Where the origins of accommodative institutions, such as territorial autonomy, are considered, they are subject to post-conflict political dynamics that are fundamentally different than those prevailing in non-conflict situations. The utility of the ethnic conflict literature for understanding the institutional dynamics in peace-time multinational polities is therefore limited. Thus, neither of these two literatures provides a comprehensive foundation for the study of accommodative capacity of governments in multinational states. In light of the emphasis on the political economy of accommodation in this dissertation, I therefore briefly examine several classical works on the political economy of nationalism. Works in this vein form the basis of the argument presented in this thesis.

Federalism: Its Origins and Sustainability

In his influential book on federalism, Kenneth Wheare described federations as ‘associations of states’ formed for a particular purpose.⁵⁶ Wheare’s voluntarist view of

⁵⁵ The more recent literature in comparative federalism tends to view federal arrangements as the independent, rather than the dependent variable, with few exceptions that will be referred to below. For an overview of the recent literature, see Eric Wibbels, “Madison in Baghdad? Decentralization and Federalism in Comparative Politics,” *Annual Review of Political Science* 9, no. 1 (2006): 165-188. For a thorough sweep of the field and a test of some key hypotheses, see Daniel Treisman, *The Architecture of Government: Rethinking Political Decentralization* (Cambridge: Cambridge University Press, 2007).

⁵⁶ Kenneth Clinton Wheare, *Federal Government*, 4th ed. (London: Oxford University Press, 1963), 1.

federalism as an outcome of the unification of previously discrete territorial units is, of course, quite incomplete. In a number of cases, federal institutions emerged from protracted struggles for autonomy in previously centralized states.⁵⁷ This is especially true of ethno-nationally heterogeneous polities which were formed through conquest in times when the consent of the governed was of little importance to the ruling elites. What follows is a review of the literature on federalism, broadly conceived, and its contribution to our understanding of the origins and sustainability of federal arrangements. While the insights furnished by authors such as Riker, Wheare, and their contemporary counterparts are not always pertinent for the study of ethnofederal arrangements, they nonetheless offer valuable conceptual and theoretical contributions to the study of multi-level polities.

William Riker's *Federalism: Origin, Operation, Significance* has influenced most subsequent theorizing on the genesis and functioning of federal systems.⁵⁸ Riker saw the origin of most federations in the combination of two 'push-factors.' The first is the desire of the political elite of the 'expansionist' unit to enlarge the scope of its territorial control, a goal which it is either incapable of achieving or unwilling to achieve by force. The ruling elites of the territories to be incorporated into the new state are offered autonomy within the new polity as an incentive to acquiesce to the union in the first place.⁵⁹ The second factor contributing to the emergence of federations is the presence of an external threat that induces the rulers of the 'targeted' territories to accept inclusion into the newly formed federal state.⁶⁰ Riker calls these two factors, respectively, the 'expansion

⁵⁷ Yash Ghai, "Constitutional Asymmetries: Communal Representation, Federalism, and Cultural Autonomy," in *The Architecture of Democracy: Constitutional Design, Conflict Management, and Democracy*, ed. Andrew Reynolds (Oxford: Oxford University Press, 2002), 157.

⁵⁸ Michael Burgess, *Comparative Federalism: Theory and Practice* (London: Routledge, 2006), Ch. 3.

⁵⁹ William H Riker, *Federalism: Origin, Operation, Significance* (Boston: Little, Brown, 1964), 12.

⁶⁰ *Ibid.*

condition,’ and the ‘military condition.’ I do not plan to discuss the theoretical soundness and empirical accuracy of Riker’s theory.⁶¹ Rather, I wish to point out that in his theoretical framework, federalism has no place as an accommodative mechanism designed to ensure stability and survival of multinational states.

Kenneth Wheare was more explicit about the dual nature of federalism, specifically the necessity of maintaining regional political units, while uniting them into a broader polity for some common purpose.⁶² He distinguished between two sets of factors contributing to the establishment of federal government: those that facilitate unity, and those that simultaneously ensure the continued existence of autonomous sub-units of governance.⁶³ After all, in the presence of only those factors that contribute to the desire for unification, what is most likely to emerge is a unitary system of government.⁶⁴ For Wheare, unification is induced by the presence of factors such as external security threats, potential economic advantages of union, and pre-existing political association among the political units forming a federation.⁶⁵ On the other hand, factors leading to the preservation of separate territorial units of governance are prior political existence as a unit, divergence of economic interests, geographic factors (isolation, distance), and finally, the ‘divergence of nationality.’⁶⁶ Unlike Riker, Wheare at least acknowledges the

⁶¹ Burgess provides a thorough overview of the critiques of Riker’s arguments. Burgess, *Comparative Federalism*, Ch. 3.

⁶² The precariously dual nature of federalism was most succinctly articulated by Dicey, who noted that the populations of the units which are forming a federation “must desire union [but] must not desire unity.” Albert Venn Dicey, *England’s Case Against Home Rule* (Richmond: Richmond Publishing Co. Ltd, 1973), 161.

⁶³ Wheare, *Federal Government*.

⁶⁴ Ramesh Dutta Dikshit, *The Political Geography of Federalism: An Inquiry into Origins and Stability* (Delhi: Macmillan Co. of India, 1975), 228–29.

⁶⁵ Wheare, *Federal Government*, 37.

⁶⁶ *Ibid.*, 40–41. A recent account of the emergence of federalism posits that much depends on the governing capacity of the pre-existing political units which make up the new federal state. Daniel Ziblatt, *Structuring the State: The Formation of Italy and Germany and the Puzzle of Federalism* (Princeton: Princeton University Press, 2006).

importance of ethno-national distinctiveness as a possible factor contributing to the emergence of federal arrangements. Nevertheless, his theory is concerned primarily with the ‘coming together’ unions, or presumed ‘voluntary unions,’ rather than the ‘holding together’ ones, many of which are multinational.⁶⁷

In contrast to Wheare and Riker, Duchacek took into account a fuller range of paths to federalism. Thus, he noted that federations could come about either when pre-existing territorial units are combined into a single political authority, or as a consequence of decentralization of previously unitary states.⁶⁸ For Duchacek, national and ethnic diversity featured far more prominently in understanding the origins of federal systems than it did for most of his peers.⁶⁹ However, beyond noting the occasional necessity for federal arrangements in multinational states, Duchacek provided little by way of a theoretical understanding of the emergence and sustainability of ethnofederal arrangements. The implicit argument that federalism is used to reduce the opposition of particular groups to membership in the common state is too obvious to be considered a theoretical advancement. A theory of the emergence of ethnofederal institutions would have to specify the conditions under which the ethnofederal bargain can be struck, as well as the factors determining the extent and durability of territorial autonomy arrangements.

Since the appearance of these foundational studies of the origins of federalism, few scholars have contributed to the theory of the origins of federalism. A notable recent exception has been Daniel Ziblatt’s work on the emergence of federalism in nineteenth-century Germany. Ziblatt argues that federal arrangements are more likely to emerge

⁶⁷ Al Stepan first articulated the distinction between the ‘coming together’ and ‘holding together’ federalism. Stepan, “Federalism and Democracy.”

⁶⁸ Ivo Duchacek, *Comparative Federalism; the Territorial Dimension of Politics* (New York: Holt, Rinehart and Winston, 1970), 237.

⁶⁹ See his Chapter 9 in particular.

when the units that are about to be amalgamated into a new state possess the governing capacity necessary to bring the benefits of federalism to all parties concerned. Under such conditions, the elites of the political unit initiating the state-making enterprise will have no incentive to establish a strong unitary government. On the other hand, if many of the units to be absorbed into the newly created state are characterized by low governing capacity, a unitary state is more likely to emerge. The government of the state initiating unification will have no choice but to extend its administrative apparatus over the entire territory of the new polity, thus ensuring the provision of public goods.⁷⁰ Ziblatt uses Italy's unification to illustrate this point. This insight could be applied to the bottom-up creation of multinational states as well. For instance, as I will show below, both Czechoslovakia and Yugoslavia were created by extending the governing apparatus of the Bohemian lands and Serbia across the increasingly ungovernable Slovak and Slovenian/Croatian/Bosnian lands. In each case, a unitary state was established. Nevertheless, Ziblatt focuses on the creation of new states emerging through the amalgamation of pre-existing polities, rather than on decentralization in previously centralized states.

Scholars of federalism have left a richer legacy when it comes to explaining the sustainability of federal institutional arrangements.⁷¹ While some have examined the socio-economic factors behind sustainable federal institutions, others have focused on the

⁷⁰ Ziblatt, *Structuring the State*.

⁷¹ This review excludes the growing literature on the political economy of fiscal federalism. Despite focusing on the political economy of federalism, works in this vein concentrate primarily on the impact of federal arrangements on the economy of states in question. For a paradigmatic case, see Jonathan Rodden, *Hamilton's Paradox: The Promise and Peril of Fiscal Federalism* (Cambridge: Cambridge University Press, 2006). In these studies, federalism is most often the independent, rather than the dependent variable. Nevertheless, particular fiscal pathologies (such as excessive indebtedness of the constituent units) can lead the central governments to limit the autonomy of the constituent units. How this plays out in multinational settings is something that remains to be studied.

design of federalism itself. Others still have emphasized the nature of political representation, specifically political parties, in understanding why some federations endure while others either break up or are transformed into unitary states. Again, few of these accounts deal with multinational federations explicitly, though they do offer some clues to the problems associated with accommodating difference in multinational states.

One of the most frequently mentioned *social prerequisites* for enduring federalism, is the existence of *dual loyalties* among citizens and political elites of federal states. In other words, durable federalism requires that most citizens of a state should feel loyalty toward both levels of government.⁷² Riker accepted the notion that dual loyalties are necessary to sustain federal arrangements, but he considered this argument to be tautological. He argued that the existence of two independent levels of government would by definition entail citizen loyalty to each.⁷³ This, however, is not true of multinational states. Here, a minority group might not feel particularly loyal to the central government, yet the latter could continue to exist on the basis of the support it receives from the majority group, or from other, more accepting minorities. For Thomas Franck, dual loyalty is less important than commitment to a federal creed, a sort of ‘ideological federalism’ as a value in itself.⁷⁴ In this approach, greater emphasis falls on what the population feels it has in common than what divides it. Without this collective emotional attachment, there is no guarantee that a federal constitution, or even certain other important factors, such as cultural similarity, will *ensure* the survival of federalism.⁷⁵

⁷² Ursula Kathleen Webb Hicks, *Federalism--Failure and Success: A Comparative Study* (London: Macmillan, 1978), 175; Riker, *Federalism*, 136; Wheare, *Federal Government*, 49.

⁷³ Riker, *Federalism*, 136.

⁷⁴ Thomas M Franck, “Why Federations Fail,” in *Why Federations Fail: an Inquiry into the Requisites for Successful Federalism*, ed. Thomas M. Franck (New York: New York University Press, 1968), 173.

⁷⁵ *Ibid.*

The most obvious problem with the ‘dual loyalties’ argument, if one applies it to multinational federations, is not that it is tautological, as Riker has argued. Rather, the issue is that in multinational federal systems dual loyalties should be a product of successful accommodation, and not its cause. Multinational states are, by definition, short on the commonality of “race, language, religion and nationality.”⁷⁶ In fact, in such polities, political elites often actively emphasize the differences between the constituent ethnic, linguistic, or national groups. As proponents of territorial autonomy argue, accommodation is supposed to strengthen the loyalty of members of minority group(s) toward the common state. Thus, mainstream studies of federalism fail to account for the very existence of multinational federations, since for them the rise of dual identities is almost invariably easier, though not guaranteed, if there is a degree of cultural or ethnic similarity between the peoples inhabiting different territorial units.

Scholars of federalism also identify relatively *even levels of economic development* as a prerequisite for a functioning federation.⁷⁷ The problems of redistribution that arise from territorially uneven development can place excessive strain on state unity. Territorial governments that either contribute too much to the state, or do not receive enough in terms of benefits, often claim unfair treatment and, in some cases, threaten withdrawal from the federation.⁷⁸ Thus, while future economic benefits of federalism do not automatically lead to political unification, economic costs, or the

⁷⁶ Wheare, *Federal Government*, 44.

⁷⁷ Hicks, *Federalism--Failure and Success*, 180–85; Wheare, *Federal Government*, 51. Hicks discussed the fiscal imbalance between the central government and the governments of constituent units. This, however, belongs to the discussion of institutional parameters of federalism and will be dealt with below. Deutsch also mentions the importance of the balance of benefits accruing from unification, as well as strong overall economic growth. Karl Wolfgang Deutsch, *Political Community and the North Atlantic Area; International Organization in the Light of Historical Experience* (Princeton: Princeton University Press, 1968), 51; 55–56.

⁷⁸ Hicks, *Federalism--Failure and Success*, 181.

perception of economic exploitation, can certainly harm the prospects of survival of federal states once they are established. Of course, this problem is particularly salient in multinational states in which economic variations often overlap group cleavages. Uneven distribution of wealth makes fiscal equalization or redistribution mechanisms both more necessary and more difficult to implement in multinational states, since both the receiver and donor of fiscal resources perceive themselves as belonging to fundamentally different political communities.⁷⁹ Uneven economic development is therefore a critical political problem for multinational federations, which is why it features so prominently in this dissertation.

There is also a reasonably strong institutionalist tradition in the study of federal systems. According to institutionalist scholars, the *design of federal institutions* significantly influences the sustainability of federal systems. The most obvious element of this design is the *constitution* and the division of powers among the two levels of government that it prescribes.⁸⁰ The constitution should assign to each level of government its own areas of jurisdiction. It should furthermore grant to each level the authority to make and implement laws in that particular sphere of activity. In addition, since the constitution is the main formal guarantee of the autonomy of the two levels of government, it should contain an amending formula that makes unilateral change of the constitution impossible.⁸¹ This way, neither level of government could be said to be subordinate to the other.⁸²

⁷⁹ On the necessity for fiscal redistribution, see Hicks. Hicks, *Federalism--Failure and Success*.

⁸⁰ Watts, *Comparing Federal Systems*, 99.

⁸¹ *Ibid.*, 102.

⁸² De Figueredo and Weingast argued that a well-crafted constitution can facilitate political coordination among the constituent units, making those units better able to prevent central government encroachments on their autonomy. Rui J. P. de Figueiredo and Barry R. Weingast, "Self-Enforcing Federalism," *Journal of Law, Economics, and Organization* 21, no. 1 (2005): 103 -135.

Several scholars have argued that constitutional safeguards must be reinforced by adequate policing mechanisms or institutional solutions that make it difficult for either the central government, or its sub-state counterparts, to encroach on each other's turf. Bednar et al. suggest that two elements are necessary for this. The first is the division of power at the central government level, making central intrusion into constituent unit jurisdiction more difficult.⁸³ The second is the establishment of a federal court which is to monitor the behaviour of the constituent unit governments.⁸⁴ Of course, the problem of constitutional enforcement in multinational states is quite different. While centralization in nation-states might not arouse the ire of citizens of different constituent units, in multinational states it is almost certain to do so, especially among members of minority nations who feel protected by the institutions of territorial autonomy. In other words, the link between identity and federalism in multinational federations can play a role in moderating the behaviour of the central government, particularly concerning the constitutional division of powers.

Yet another important institutional element influencing the sustainability of federalism is the nature of *constituent unit representation at the centre*. Usually, federal units exercise influence over common-state legislatures through more or less equal representation in the upper house of the parliament. Thus, each US state sends two senators to the US Senate, just as each German Bundesland sends a given number of

⁸³ Jenna Bednar, William Eskridge, and John Ferejohn, "A Political Theory of Federalism," in *Constitutional Culture and Democratic Rule* (Cambridge: Cambridge University Press, 2001), 230. Roeder calls such institutions 'power-dividing'. Philip G Roeder, "Power Dividing as an Alternative to Ethnic Power Sharing," in *Sustainable Peace: Power and Democracy After Civil Wars*, ed. Philip G Roeder and Donald S Rothchild (Ithaca: Cornell University Press, 2005). A system of checks and balances ensures that a government cannot easily change the institutional architecture of the state. However, it can also impair the policy-making capacity of governments. The latter carries its own implications for the stability of multinational states.

⁸⁴ Bednar, Eskridge, and Ferejohn, "A Political Theory of Federalism," 230.

representatives to the Bundesrat.⁸⁵ In the case of the Bundesrat, the states do not receive an equal number of seats, but smaller states are certainly overrepresented relative to their larger opposites. What matters in terms of upper house representation is both the degree of control that the constituent unit governments exercise over their representatives at the centre, as well as the political power of the upper house and its ability to influence the executive branch of government.

Ideally, constituent unit representation in common state legislatures should ensure that the central government does not overwhelm the constituent units. However, if such representation is either too weak or too strong, the federal bargain is not likely to survive. Weak constituent unit influence over the centre might result in a unitary system of governance. On the other hand, if the institutional framework allows for excessive influence of the constituent units over the central government, the outcome could be capture of the centre by one or several territorial governments.⁸⁶ The ultimate outcome of this particular dynamic would depend on the intentions of the regional governments involved, but they can include anything from the creation of a unitary state to the breakup of the common state altogether. Of course, in multinational states, the problems with both excessive centralization and excessive influence of the constituent units tend to be magnified. I will integrate these insights into my explanation, particularly with respect to accommodative outcomes in Czechoslovakia and Yugoslavia.

⁸⁵ G. Alan Tarr, "United States of America," in *Constitutional Origins, Structure, and Change in Federal Countries*, ed. John Kincaid and Alan Tarr (Montreal: McGill-Queen's University Press, 2005); Jutta Kramer, "Federal Republic of Germany," in *Constitutional Origins, Structure, and Change in Federal Countries* (Montréal: McGill-Queen's University Press, 2005).

⁸⁶ Mikhail Filippov, Peter C Ordeshook, and Olga Shvetsova, *Designing Federalism: A Theory of Self-Sustainable Federal Institutions* (New York: Cambridge University Press, 2004), 66.

The final aspect of federalism's institutional design that I examine in this review is the *design of the constituent units* of the federation. Most authors argue that federations with many constituent units of similar size, population, and wealth have a greater chance of surviving than those whose constituent units are too dissimilar with respect to these criteria. If one or a few units are overwhelming in their size, population, and wealth, they might be in a position to capture the central government by their sheer political weight. As Wheare notes, such disparities can help transform even confederations into unitary states.⁸⁷ Arguing from a different angle, Jonathan Lemco has observed that oversized constituent units are more likely to try to go it alone than are smaller ones.⁸⁸

Academics studying ethnofederal arrangements have made similar arguments. For example, Henry Hale argues that the presence of one large constituent unit, which contains most of the ethnic majority group, is likely to make ethnofederations less viable in the long run.⁸⁹ Following this argument, if policy-makers wish to design sustainable multinational federations, they need to ensure that the largest ethno-national group is divided into a number of territorial units, rather than just one. In addition, it appears that binary ethnofederations, with only two constituent units, are inherently unstable. In such polities, there is no room for shifting coalitions of states, as there is in federations with a larger number of federal units.⁹⁰ While the evidence that both Hale and Lemco offer is compelling, within the framework of the study undertaken here, this and other institutional explanations cannot account for accommodative capacity of multinational

⁸⁷ Wheare, *Federal Government*, 50.

⁸⁸ Jonathan Lemco, *Political Stability in Federal Governments* (New York: Praeger, 1991), 44–45; 49.

⁸⁹ Hale, "Divided We Stand." Pinder makes a similar observation. John Pinder, "Multinational Federations: Introduction," in *Multinational Federations*, ed. Michael Burgess and John Pinder (London: Routledge, 2007), 8.

⁹⁰ Ivo D. Duchacek, "Dyadic Federations and Confederations," *Publius* 18, no. 2 (1988): 5-31.

governments in the first instance. Namely, the institutional framework itself is often the outcome, rather than the cause, of accommodation. To the extent to which such initial accommodation can strengthen the bargaining position of the constituent unit in question, there is a case to be made for institutional design as an element of accommodative capacity. However, my approach is intended to identify the socio-economic conditions that influence the development of institutions. In fact, I argue that while institutions can be fairly ‘sticky’, they can be of secondary importance for accommodative outcomes if the underlying social or political conditions channel the interests of the relevant actors in a different direction.⁹¹

A small but influential group of scholars has emphasized the influence of *party systems* on the viability of federal arrangements. Riker, for example, argued that the sustainability of US federalism depends on the decentralized party system, where national-level parties (or presidents) have been unable to control the nomination process for national elections.⁹² Such organization of the party system acts as a deterrent to centralizing tendencies of common-state elites.⁹³ In a more systematic recent study, Filippov et al. argue that ‘integrated’ party systems ensure that neither level of government tries to overwhelm the other. Integrated party systems are characterized by institutional linkages between state-wide and federal unit parties.⁹⁴ If the success of a given party at one level is dependent on the success of its counterpart at the other level, then, the authors argue, party politicians will not have an incentive to challenge the

⁹¹ Erk makes a somewhat similar point by noting that federal institutions tend to change with the social conditions that underpin them. Jan Erk, *Explaining Federalism: State, Society and Congruence in Austria, Belgium, Canada, Germany and Switzerland* (London: Routledge, 2008).

⁹² Riker, *Federalism*, 91–101.

⁹³ More specifically, central level politicians have little incentive to try to control local nominations, since their involvement might result in the victory for the rival party. *Ibid.*, 100.

⁹⁴ Filippov, Ordeshook, and Shvetsova, *Designing Federalism*, 190; 192.

institutional status quo for fear of undercutting their own political position. For instance, a politician competing at the state-wide level will not undermine his own party at a constituent unit level for fear of losing the support of the constituent unit organization.⁹⁵ In addition, to the extent to which the politicians at either level see the possibility of political mobility between party systems (central and local), they are unlikely to undermine the institutional bases of their future power.⁹⁶ In other words, such politicians do not wish to enfeeble governments they are hoping to run in the future.

Neither set of arguments helps in explaining the variability in the direction and extent of accommodation in multinational federations. The argument put forward by Filippov et al., for example, is predicated on the existence of integrated party systems. But such systems are particularly unlikely to emerge in multinational states, where minorities are as unlikely to welcome integration of party systems as they are the unitary organization of the state. Rather, minorities tend to view parties that they support as protectors of minority-group interests at either the common state or the constituent unit level. Any influence of state-wide parties over their regional counterparts is unlikely to be welcomed, either by the minority electorate, or by minority politicians themselves.⁹⁷ Moreover, according to this logic, few multinational states can expect to have enduring federal systems, which flies in the face of experience of states such as Canada,

⁹⁵ Ibid., 193–94.

⁹⁶ Ibid., 254.

⁹⁷ This pattern can be seen clearly in Canada and Spain. In Canada, even the federalist Liberal Party of Quebec has for decades been at pains to point out its independent status vis-à-vis the federal Liberal Party, flaunting its nationalist (though not separatist) credentials throughout. In Spain, the support provided by the moderate Catalan nationalist party, *Convergència i Unió* (CiU), to socialist and conservative governments in Madrid during the 1990s contributed to the loss of CiU votes during subsequent elections.

Belgium,⁹⁸ India, Nigeria and others. The authors themselves note on numerous occasions that the conditions for sustainable federalism they outline are unlikely to prevail in multinational or otherwise ‘divided’ polities.⁹⁹

Thus, the literature on federalism offers few clues about how to approach the study of the functioning of federal arrangements as an accommodative device in multinational settings. Existing theories of federalism have explained the government’s ability to maintain the federal bargain by identifying the conditions that most often do not prevail in multinational states, such as a common sense of identity, integrated party systems, and others. This literature does identify some issues that are as salient in multinational federations as they are in their nationally homogeneous counterparts, including the importance of fiscal redistribution. Nevertheless, this brief overview shows how underdeveloped the theoretical and conceptual foundation is for the study of the origins and functioning of ethnofederal arrangements.

Territorial Autonomy and Ethnic Conflict Literature

Literature on ethnic conflict is vast.¹⁰⁰ Rather than examine it systematically, I will briefly discuss several key works and explore their contribution to the understanding of the sustainability of territorial autonomy. For most students of ethnic conflict, autonomy is only one of many tools which can be deployed to end violent conflicts.

⁹⁸ Arguably, Belgium’s political problems stem from its power-sharing arrangements, rather than from its federal institutional structure. Jeroen Maesschalck and Steven Van de Walle, “Policy Failure and Corruption in Belgium: Is Federalism to Blame?” *West European Politics* 29 (2006): 1010–11.

⁹⁹ Filippov, Ordeshook, and Shvetsova, *Designing Federalism*, 189.

¹⁰⁰ No literature review can do it justice. A general textbook introducing the subject to a general audience gives an excellent sense of the profusion of writing about the issue. Stefan Wolff, *Ethnic Conflict: A Global Perspective* (Oxford: Oxford University Press, 2006). See also Karl Cordell and Stefan Wolff, eds., *Routledge Handbook of Ethnic Conflict* (Abingdon: Routledge, 2011).

Other conflict management techniques include power-sharing at the centre, conflict-appropriate electoral systems, a range of preferential policies to redress group grievances, as well as various forms of international solutions.¹⁰¹ In the extreme, physical separation of inter-mixed groups and the accompanying ethnic homogenization of territory have been considered as well.¹⁰² Because territorial autonomy is seen as a conflict-management device, much effort has been expended on understanding how effective it is in alleviating inter-group conflict. Far less work has been directed toward understanding its extent and durability.

Scholarship on ethnic conflict can be divided roughly into two camps. Scholars belonging to the first camp concern themselves with the establishment of peace and the factors that contribute to it. Those belonging to the second camp wish to find out what makes the newly established peace more or less durable. Though it would be expected that the latter school would shed some light on the issues of the extent and sustainability of territorial autonomy, this has not been the case. The termination of inter-ethnic hostilities is usually explained by the characteristics of the conflict itself. For Lake and Rothchild, agreements that bring an end to violent conflict are a result of a mutually hurting stalemate.¹⁰³ In other words, the two sides agree to a compromise that ends a war when the cost of continuing exceeds what each side is willing to tolerate.¹⁰⁴ The authors also argue that the terms of such a compromise depend on the balance of power between the opposing sides. Group power is, in turn, shaped by demography, resources, and

¹⁰¹ All of these are mentioned in one form or another in Horowitz's encyclopedic *Ethnic Groups in Conflict*. Horowitz, *Ethnic Groups in Conflict*, 2nd Edition.

¹⁰² Chaim Kaufmann, "Possible and Impossible Solutions to Ethnic Civil Wars," *International Security* 20, no. 4 (1996): 136.

¹⁰³ Lake and Rothchild, "Territorial Decentralization and Civil War Settlements," 111.

¹⁰⁴ The concept of 'mutually hurting stalemate' was popularized by Zartman. I. William Zartman, *Ripe for Resolution: Conflict and Intervention in Africa* (New York: Oxford University Press, 1985).

organizational abilities.¹⁰⁵ Horowitz comes to a similar conclusion when he notes that “there seems to be a direct relationship between the magnitude of the event that prompts [the reconsideration of governing arrangements] and the comprehensiveness of the arrangements that emerge from it.”¹⁰⁶

To argue that accommodative arrangements reflect the relative distribution of power of previously warring sides, while an adequate starting point, is not sufficient. Power relations are not directly mapped onto outcomes. Miscalculations, skilled strategizing, emotions, and external pressures, to mention only a few factors, all play a part in the way in which the initial compromise is hammered out. More problematically, work on ethnic conflict *management* tells us little about the sustainability of territorial accommodation. This is expected given the literature’s quite reasonable emphasis on the cessation of open violence. Scholars of ethnic conflict emphasize the institutional and other means through which the warring parties can be persuaded to accept peace. Accordingly, they tend to view accommodation as an event, rather than a long-term process. This segment of the ethnic conflict literature therefore offers little to enhance our understanding of territorial accommodation as a process in peacetime settings.

On the other hand, scholars who focus on long-term conflict resolution¹⁰⁷ seek to uncover the conditions facilitating enduring peace. Yet even here, institutions carry a

¹⁰⁵ David A Lake and Donald Rothchild, “Containing Fear: The Origins and Management of Ethnic Conflict,” *International Security* 21, no. 2 (Fall 1996): 50.

¹⁰⁶ Horowitz, *Ethnic Groups in Conflict*, 2nd Edition, 580.

¹⁰⁷ The distinction between conflict management and conflict resolution has a long lineage. Stephen Ryan, “Conflict Management and Conflict Resolution,” *Terrorism and Political Violence* 2, no. 1 (1990): 54-71. However, the terminology distinguishing the two remains unclear. Suffice it to say that the interruption of hostilities is often labeled conflict-management and at times conflict settlement, while the establishment of the conditions for long-term peace falls under the rubric of conflict resolution, reconciliation, and peacebuilding. Yaacov Bar-Siman-Tov, ed., *From Conflict Resolution to Reconciliation* (New York: Oxford University Press, 2004); Michael W Doyle and Nicholas Sambanis, “International Peacebuilding: A Theoretical and Quantitative Analysis,” *American Political Science Review* 94, no. 4 (2000): 779-801.

disproportionate explanatory burden, and are seldom explained themselves.¹⁰⁸ Besides studying institutions as conflict-management devices, analysts of conflict resolution also consider the influence of the international context, the role of third parties in conflict-resolution, characteristics of the conflict itself (including key issues at stake), and the process of peace implementation in order to explain why some conflicts are brought to a permanent close.¹⁰⁹ Obviously, the factors related to the nature of the conflict are not exportable to non-violent contexts. Third parties also have a much lower salience in conflicts that do not take a violent turn, such as those contests I am analyzing in this work. Thus, the pattern of institutional formation and functioning in post-conflict settings, including the institutions of territorial autonomy, are unlikely to be found in states with no recent history of violence.

Scholars of ethnic conflict have significantly improved our understanding of the dynamics of violent identity-based clashes, but they have contributed relatively little to the understanding of the capacity of multinational states to accommodate group aspirations to territorial autonomy. An important shortcoming of the literature on ethnic conflict is the understandable focus on ‘ethnic’ factors when explaining the sustainability of peace and of accommodative institutions. Yet, as I will continue to emphasize in this dissertation, non-ethnic factors, such as the political strategies of the governing elites, can play a key role in shaping the possibilities for accommodation in multinational states.

¹⁰⁸ Philip G Roeder and Donald S Rothchild, eds., *Sustainable Peace: Power and Democracy After Civil Wars* (Ithaca: Cornell University Press, 2005); Caroline Hartzell, Matthew Hoddie, and Donald Rothchild, “Stabilizing the Peace After Civil War: An Investigation of Some Key Variables,” *International Organization* 55, no. 1 (2001): 183-208; Frederic S. Pearson et al., “Rethinking Models of Civil War Settlement,” *International Interactions: Empirical and Theoretical Research in International Relations* 32, no. 2 (2006): 109.

¹⁰⁹ Hartzell, Hoddie, and Rothchild, “Stabilizing the peace after civil war,” 183.

Political Economy of Nationalism

Addressing nationalist claims is only one challenge facing the governing elites in multinational states. The other is the day-to-day provision of public goods to citizens. It is difficult to understand both the extent of accommodation and its sustainability without considering how the central government approaches the task of governance and how it sees its own role in it. The politics of territorial accommodation is always embedded within a broader project of governance. Apart from moments of nationalist crises, during which the territorial integrity of the state is in question, the governance imperative can be expected to take precedence over the accommodation imperative for the common-state political elites. Their hold on power depends on their ability to provide public goods to the majority of a state's citizens. While managing national diversity also contributes to a government's popularity, it is hardly sufficient to provide a lasting source of popular support among most citizens.

It can thus be hypothesized that the ruling elites are unlikely to provide extensive territorial autonomy for any extended period of time if that autonomy interferes with their ability to govern effectively and continue to garner public support. Autonomy is particularly unlikely to be extensive or lasting if it hamstring the economic sinews of governance. I emphasize the economic aspects of governance because the material base profoundly shapes the political choices of both the central government and the minority political elites.¹¹⁰ The fiscal capacity of the central government, as well as its capability of regulating economic flows, are critical to its ability to implement policy in all domains. For the political elites at the centre, money and economic regulation pave the way to

¹¹⁰ Hicks makes a strong case for the importance of fiscal resources for both levels of government in federal systems. Hicks, *Federalism--Failure and Success*, 181.

gaining and maintaining power. They must have economic leverage if they hope to implement their political vision. Whether they are trying to expand or shrink the state, make it qualitatively different, or maintain the status quo, governments need material resources and control over levers of economic regulation.

On the other hand, for the leaders of minority nations, territorial autonomy is meaningless without fiscal autonomy. With few fiscal resources of their own, regional or sub-state governments would not be able to implement their own policies autonomously of the central government. If their revenues come from other levels of government, and if they come with strings attached, sub-state governments would be autonomous in name only. The ability to provide key public programs is as important here as it is at the central state level, since some of these programs are devised to ensure the survival of separate group identity.

In emphasizing economic factors, I do not claim that they are the defining factor of ethnic politics. However, the economic structuring of the society, together with the economic ideology of the central state elites, present the context which cannot be ignored when seeking to understand how and why particular patterns of accommodation develop. What, then, is the starting point in the analysis of the political-economic underpinnings of accommodation? Key insights can be gleaned from the literature on the political economy of ethno-nationalism. This is the literature that locates the origins of minority nationalism and its mobilization in the sphere of political economy.

The starting point of this literature is the issue of economic inequality among the (usually territorially concentrated) ethnic groups. Such patterns of inequality are often

referred to as the cultural division of labour.¹¹¹ Economic differentiation among ethnic groups is quite pervasive.¹¹² For scholars studying the impact of economic differentiation on nationally plural states, material inequalities among groups are uniformly destabilizing. In a pioneering work on internal colonialism, Hechter noted that the overlap of ethnic difference with economic underdevelopment tends to preclude political integration of the underdeveloped group.¹¹³ He supplements this thesis by noting that members of the group in question must be aware of this situation and perceive it as ‘unjust and illegitimate.’¹¹⁴ Underdevelopment, combined with separate cultural markers, then, is likely to produce a politicized identity distinct from the rest of the society. For Hechter, political integration of such groups can only take place if inequality is eliminated.¹¹⁵

On the other hand, scholars like Peter Gourevitch have claimed that it is the economically advantaged groups which are the source of political instability in multinational states. Gourevitch convincingly argued that groups that are simultaneously relatively economically advantaged but politically marginal are prime material for ethno-

¹¹¹ For the definition of “cultural division of labour”, see Michael Hechter, *Internal Colonialism: The Celtic Fringe in British National Development, 1536-1966* (London: Routledge and Kegan Paul, 1975), 9. For a broad statement of the importance of economic differentiation, see Paul Brass, “Ethnicity and National Formation,” *Ethnicity* 3, no. 3 (1976): 231–32. For patterns of early economic stratification in Europe, see Rokkan, *Economy, Territory, Identity*, Chs. 1 & 2. The author notes that there is a degree of overlap between cultural-institutional distinctiveness and economic differentiation. *Ibid.*, 60. For socio-economic differentiation among different ethnic groups in less developed states, see Robert H Bates, “Ethnic Competition and Modernization in Contemporary Africa,” *Comparative Political Studies* 6, no. 4 (1974): 462–64.

¹¹² In non-settler colonial societies, disparities in wealth among ethnic groups have often been a product of colonial policies. Horowitz, *Ethnic Groups in Conflict, 2nd Edition*, 156–60.

¹¹³ Hechter, *Internal Colonialism*, 42–3.

¹¹⁴ *Ibid.*, 42–3.

¹¹⁵ *Ibid.*, 340. Hechter’s work was strongly influenced by the dependencia school of international relations.

national mobilization.¹¹⁶ This incongruence between the ‘ethnic’ loci of political and economic leadership in a state is likely to produce conflict between the political centre and ‘periphery.’ What is at stake is the openness of the common state government to the leaders of the relatively prosperous group. If the political aspirations of ‘peripheral’ (usually minority) elites cannot be satisfied through political institutions of the common state, they are more likely to attempt to mobilize their groups around sub-state nationalist aims.

The political economy literature therefore emphasizes the importance of uneven economic development for the prospects for integration, stability, and survival of multinational states. It should be noted that of all of the writings reviewed here, none contains an exclusively economistic claim.¹¹⁷ Group-based economic inequality interacts with other factors, including pre-existing cultural differences, to produce political outcomes. Regardless of emphasis, most such analyses suggest fairly pessimistic implications for the fate of ethnically heterogeneous polities. Yet, for all their flaws, they point to a very important structural feature of ethnic relations: ethnically-based economic inequalities.

The direct utility of this research for the question posed in this dissertation is limited. More specifically, authors such as Hechter, Rokkan, and Gourevitch do not speak directly to the ability of the central government to accommodate demands for territorial autonomy. Like most other scholars who have conducted research on multinational states, they emphasize the causal link between their independent variable and the political

¹¹⁶ Peter Alexis Gourevitch, “The Reemergence of ‘Peripheral Nationalisms’: Some Comparative Speculations on the Spatial Distribution of Political Leadership and Economic Growth,” *Comparative Studies in Society and History* 21, no. 3 (1979): 306.

¹¹⁷ For a good critique of this school of thought, see A. W. Orridge, “Uneven Development and Nationalism,” *Political Studies* 2, no. 29 (1981): 181-90.

calculus of minority groups.¹¹⁸ How these economic inequalities influence the political decision-making of central government elites and their ability to accommodate various nationalist demands is rarely considered. Still, considering that economic inequality is pervasive and given its importance for management of ethnic tensions, this research provides a conceptual and theoretical starting point on which my dissertation rests.

Ethno-territorial patterns of economic development form a structural context that influences not only the patterns of identity formation and political demands made by minority groups, as the aforementioned scholars have noted. They also form the material basis that underpins the actions of the central government, both in terms of governance and accommodation. Extensive autonomy for sub-state units implies fiscal autonomy and a shift of resources away from the centre and toward sub-state territorial units. Where minority-inhabited regions are relatively more developed, the government's capacity to extend full political, and therefore also fiscal/economic, autonomy would be limited since the central government would depend disproportionately on the resources of this region for the financing of state-wide government programs. On the other hand, if majority-inhabited regions are relatively more developed, the government could better afford to forgo the fiscal resources generated by the majority population. Indeed, the central government could then be in a position to redistribute resources toward the less developed, minority-inhabited constituent unit(s). Thus, we could conclude simply that in multinational states where the minority-inhabited regions are relatively less developed, the accommodative capacity of the central government would be high, and vice versa.

The foregoing hypothesis takes as given the fiscal demands of the central government. Yet, fiscal demands of governments vary from state to state, depending on

¹¹⁸ I will consider this matter in due course as well, since it is relevant to the central argument I am making.

the established ideologies of governance and the governing elites' beliefs about the role of the state in society and economy. Paradigms of governance manifest themselves in the economic and social policies enacted by central governments.¹¹⁹ These policies, taken together with the ethno-territorial distribution of wealth, form the political-economic landscape within which central governments engage in accommodative projects. The following chapter combines these two sets of variables into a synthetic explanation of the accommodative capacity of governments in multinational states.

¹¹⁹ Original intentions of policy-makers are refracted through the usual political bargaining which tends to dilute the programmatic purity of policies that are ultimately enacted. Policy implementation presents yet another barrier to consistent fulfillment of elites' policy preferences.

CHAPTER 2: Accommodative Capacity - Explanatory Framework

In this dissertation I attempt to address the theoretical deficit identified in the previous chapter. The review of the literature on federalism and ethnic conflict demonstrates the absence of systematic theories of accommodative capacity in multinational states. I define ‘accommodative capacity’ as the ability of central governments to offer extensive and durable territorial autonomy to geographically concentrated ethno-national groups.¹²⁰ This ability is evident in the extent of autonomy granted at a given point in time, and in the medium- to long-term *trend* toward more or less extensive autonomy.

The central argument presented in this thesis is that accommodative capacity depends in large part on the relative economic importance of the minority-inhabited territory for the governance of the entire state. Thus, the more “important” the fiscal resources of the region in question are for the central government’s policy-making capacity, the weaker the government’s accommodative capacity, and vice-versa. A graphic representation of this hypothesis can be found in Table 1 in the previous chapter. In turn, the relative importance of the territory is dependent on its relative wealth and the governing strategies adopted by the central government. The present chapter offers a detailed definition of both the independent and dependent variables, as well as a comprehensive outline of the central hypotheses that I will assess in the rest of this work.

¹²⁰ In the interest of simplicity, I assume that most such groups are minorities. See Gurr, *Minorities at Risk*. However, this is not always the case. If majority elites believe that the central government does not adequately address their interests, they may seek autonomy for majority-dominated regions. The Flemish case offers one such example. Wilfried Swenden and Maarten Theo Jans, “‘Will It Stay or Will It Go?’ Federalism and the Sustainability of Belgium,” *West European Politics* 29, no. 5 (2006): 877-894.

I follow this with an overview of the methods employed and discuss the appropriateness of case selection.

I emphasize once again that the explanation offered in this thesis is partial. No monocausal analysis of a phenomenon as complex as the pattern of ethnic accommodation is possible: other factors certainly play a part in the accommodative outcomes in multinational states. Among the more important ones are the central elites' ideas about the appropriate state architecture; the structure of the party system and its influence on minority party leverage vis-à-vis the central government; as well as the history of inter-group relations. I will address some of these issues as I work through the causal narratives for each of the selected case studies. Of course, no parsimonious explanation can afford to rely on too many causal factors.

I have opted for the political economy approach for the following reason. In explaining ethnic conflict and accommodation, most scholars emphasize what could be termed "ethnic" factors. The few scholars who have ventured to explain the extent of ethnic accommodation have usually invoked the fear of violent conflict or state breakup,¹²¹ the strength of nationalist parties in the party system,¹²² or the legitimacy of minority demands¹²³ as key causal factors. I suggest that theories that overemphasize 'ethnic' factors do not consider the contextual factors other than those immediately related to inter-ethnic relations. Yet such contextual factors could reveal more about the outcomes of interest than the exclusive focus on ethnopolitical dynamics.

¹²¹ McGarry and O'Leary, "The Political Regulation of National and Ethnic Conflict," 111.

¹²² Saul Newman, "Nationalism in Postindustrial Societies: Why States Still Matter," *Comparative Politics* 33, no. 1 (2000): 29.

¹²³ Horowitz, *Ethnic Groups in Conflict, 2nd Edition*, 624.

Therefore, I have approached the subject of accommodative capacity with the assumption that every accommodative enterprise is embedded within a broader project of governance. Ethnic and non-ethnic variables interact and exert influence on one another and should therefore be considered together. As I have noted in Chapter 1, I focus on economic factors, both ethnic (ethno-territorial division of labour) and non-ethnic (governing strategies), due to the importance of material resources and their distribution for all actors involved in bargaining about ethnic accommodation.

This dissertation belongs to the broader field of comparative historical analysis. Such analyses have as their goal the uncovering of ‘comprehensive structures and large-scale processes that [provide] powerful clues to the patterning of social life.’¹²⁴ In other words, much of the focus of comparative historical analysis is on revealing how the structural context influences social action, rather than on identifying proximate causes of phenomena. Some of the best work in this vein is not focused on assessing the relative causal importance of different variables, but rather on understanding how these interact in particular historical circumstances to produce outcomes that interest us.¹²⁵ In line with this scholarly tradition, the approach taken here is *structural, historical, and comparative*. It is *structural* in the sense that it focuses on large-scale social, political, and economic patterns of relations which shape the possibilities of human action.¹²⁶ It is *historical*

¹²⁴ James Mahoney and Dietrich Rueschemeyer, “Comparative Historical Analysis: Achievements and Agendas,” in *Comparative Historical Analysis in the Social Sciences*, ed. James Mahoney and Dietrich Rueschemeyer (Cambridge: Cambridge University Press, 2003), 7.

¹²⁵ Ira Katznelson, “Structure and Configuration in Comparative Politics,” in *Comparative Politics: Rationality, Culture, and Structure*, ed. Mark Irving Lichbach and Alan S Zuckerman (Cambridge: Cambridge University Press, 1997), 99.

¹²⁶ Structural theories tell us about “an organization of possibilities” for human action. Hugh Stretton, *The Political Sciences: General Principles of Selection in Social Science and History* (London: Routledge & K. Paul, 1969), 326. For Anthony Giddens, structure is defined as “rules and resources, recursively implicated in the reproduction of social systems.” Anthony Giddens, *The Constitution of Society: Outline of the Theory of Structuration* (Berkeley: University of California Press, 1984), 377. Sewell extends and refines

because it examines accommodation over time, as a process, and tries to understand its dynamics. It is *comparative* because it compares cases with a view to not only illustrating how different configurations of hypothesized factors combine in influencing outcomes, but also to foreground the causal narratives for each case by highlighting contrasts between cases. Thus, the method employed here will combine cross-case comparison and within-case analysis.

2.1. The Dependent Variable – Accommodative Capacity

Capacity as Effectiveness

State capacity can be defined as the ability of a government to implement its preferred policies effectively.¹²⁷ Seminal works on capacity emphasize the need to disaggregate the concept of state capacity, arguing that no government is equally capable across all policy areas.¹²⁸ Thus, one can talk about a state's capacity to implement policy in particular spheres of governmental activity, or more generally, capacity along different policy functions. Robinson, for example, differentiates between relational, infrastructural, transformative, and distributive capacity.¹²⁹ My dissertation adds another element to this

Giddens' notion of structure by elaborating on the definition of both rules and resources. To Sewell, resources permit one to enhance or maintain power and are usually unevenly distributed. William H Sewell, "A Theory of Structure: Duality, Agency, and Transformation," *American Journal of Sociology* 98, no. 1 (1992): 9.

¹²⁷ This definition draws on Migdal's deliberate simplification of his own conceptualization of state capacity. Joel S Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press, 1988), 33. A similar emphasis on the effectiveness of policy-implementation, and the success of policies themselves, can be found in Linda Weiss, *The Myth of the Powerless State* (Ithaca: Cornell University Press, 1998), 15–17. and Mark Robinson, "Hybrid States: Globalisation and the Politics of State Capacity," *Political Studies* 56, no. 3 (2008): 566–583.

¹²⁸ Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research"; Weiss, *The Myth of the Powerless State*.

¹²⁹ Robinson, "Hybrid States," 576–77.

distinction by employing a new concept: that of accommodative capacity. This type of capacity can be found only in multinational states whose governments must deal with demands for accommodation from one or more of their constituent ethnic groups. The emphasis in the present work is placed exclusively on the territorial dimension of accommodative capacity. I therefore do not address the accommodation of demands that do not have direct implication for territorial autonomy, such as requests for affirmative action programs.

Changing the institutional architecture of the state can hardly be compared to day-to-day policy-making. Still, there are degrees of effectiveness in the ability and approach taken to alter the form of the state. In this thesis, it is not my intent to explain the effectiveness of territorial autonomy in facilitating political stability or state preservation. As I have noted in the previous chapter, this problem has been dealt with extensively elsewhere.¹³⁰ Rather, this dissertation explains the variability in the extent and sustainability of territorial accommodation across countries. It therefore takes accommodative arrangements as the dependent variable.

Accommodation is as much a process as it is a one-off occurrence.¹³¹ The initial extension of territorial autonomy to a particular group is often a contingent *event*, a product of a political opening, which might have taken place even in the context of long-term trends inimical to autonomy or the original intentions of the granting government. In some instances, it might be a consequence of external intervention, as was the case in

¹³⁰ Erk and Anderson, "The Paradox of Federalism."

¹³¹ The literature on federal systems often conceives of federalism as a process. Burgess, *Comparative Federalism*.

Iraq and Bosnia.¹³² Because it is contingent, accommodation-as-event is difficult to explain systematically unless one invokes the obvious combination of desire on behalf of a given community to govern itself, and a political opening facilitating the achievement of autonomy. The autonomy of sub-state institutions can be either extended or curtailed over time. If autonomy is modest in the first place, or if it is reduced soon after it has been granted, understanding its origins is of little utility. In this study I focus not on the emergence of territorial autonomy as an event but rather on the extent and durability of accommodation over time. Both of these concepts will be further defined and operationalized below.

The Extent of Autonomy

Territorial autonomy is a multi-faceted concept, as the discussion in Chapter 1 has already suggested.¹³³ Jonathan Rodden distinguishes between political, policy, and fiscal dimensions of autonomy.¹³⁴ I take this classification as a useful starting point in thinking about how to assess the extent of territorial autonomy.

Political autonomy is the most critical element of territorial autonomy. Without fundamental political prerogatives, governments of sub-state units are little more than administrative extensions of the central government. Rodden outlines two different

¹³² On Iraq, see Brendan O’Leary and Paul Williams, “The Denial, Resurrection, and Affirmation of Kurdistan,” in *The Future of Kurdistan in Iraq*, ed. Brendan O’Leary, John McGarry, and Khalid Salih (Philadelphia: University of Pennsylvania Press, 2005); Lawrence M Anderson, “Theorizing Federalism in Iraq,” *Regional and Federal Studies* 17, no. 2 (2007): 159-171. On Bosnia, see Sumantra Bose, *Bosnia After Dayton: Nationalist Partition and International Intervention* (New York: Oxford University Press, 2002); Steven L Burg and Paul Shoup, *The War in Bosnia-Herzegovina: Ethnic Conflict and International Intervention* (Armonk: M.E. Sharpe, 1999).

¹³³ For a brief discussion of problems in assessing the extent of decentralization, see Watts, *Comparing Federal Systems*, 72.

¹³⁴ Jonathan Rodden, “Comparative Federalism and Decentralization - On Meaning and Measurement,” *Comparative Politics* 36, no. 4 (2004): 481-98.

indicators of political autonomy. The first, and most obvious, is the election, rather than the appointment, of governments of autonomous units.¹³⁵ Yet, since elections at one level can be influenced by the governments at another, Rodden adds to this the independence of electoral arenas.¹³⁶ This concern is analogous to the influence that both Riker and Filippov et al. assign to the links between party systems at both federal levels. If, for instance, the state-wide party officials are involved in the nomination of candidates in constituent units, the central government might exercise significant political influence over lower-level governments.

Moreover, the direct election of constituent unit officials offers territorial governments an independent source of legitimacy, which is an important component of autonomy of regional governments.¹³⁷ Constituent unit politicians can exploit this support even if they have more or less formal links with other levels of government, in something akin to a two-level game.¹³⁸ Thus, decentralization, even if accompanied by significant political links between the two levels of government, produces its own sources of autonomy which can be exploited by skilled political leaders. The political dimension of territorial autonomy lends itself primarily to qualitative assessment.

Another element of political autonomy could be added to the two already listed: the presence of autonomous institutions. This is not as obvious as it appears. In order to be fully autonomous, a regional government must have the organizational resources necessary to discharge its obligations. This entails the control over a bureaucracy

¹³⁵ Ibid., 487.

¹³⁶ Ibid., 488.

¹³⁷ In the sense that they can invoke their own popular support in tailoring specific policies. Where local officials derive their legitimacy from having been appointed by upper-level officials, they possess a much weaker basis for autonomous action.

¹³⁸ Robert D Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42, no. 3 (1988): 427-60.

necessary to implement the decisions made by the three branches of government. If, for instance, an autonomous government must rely on a central state bureaucracy for policy implementation, its autonomy might not be as extensive as it would be if had its own bureaucratic apparatus to ensure this.

Policy decentralization is defined by Rodden as the overall division of policy-making responsibilities between the two levels of government.¹³⁹ Rodden's conceptualization shares much with Watts' discussion of 'legislative decentralization.'¹⁴⁰ Watts rightly notes that simply counting the number of areas assigned to a constituent unit tells us little about its relative autonomy.¹⁴¹ Not all policy areas are equally consequential. For example, environmental policy is usually not as significant as social or health policy in terms of resource implications. In different political contexts, however, the identical policy areas can have dissimilar impact. Thus, it makes little sense to outline a universally applicable hierarchy of policy areas and then judge the relative autonomy of a constituent unit's government based on the number of 'objectively important' areas falling within its purview. Rather, I will examine each of the selected cases individually to assess whether or not the relevant constituent units were assigned significant areas of policy-making. In light of the central role of political economy in this dissertation, I will pay particular attention to fiscal and economic policies. One problem with this indicator of autonomy is that it does not capture the direction of the relationship between the two levels of government regarding particular policy areas. Namely, the constituent unit can be receiving more or less policy autonomy over time. For this reason the temporal

¹³⁹ Rodden, "Comparative Federalism and Decentralization - On Meaning and Measurement," 486.

¹⁴⁰ Watts, *Comparing Federal Systems*, 72.

¹⁴¹ *Ibid.*, 72.

dimension of autonomy must also be examined. I will address this issue in the following sub-section.

Though it could be subsumed under policy autonomy, *fiscal decentralization* is so critical to autonomy that it must be considered separately. As previously noted, political and policy autonomy are circumscribed unless accompanied by independent sources of funding. Rodden begins his discussion of fiscal decentralization by noting that its degree is often assessed by looking at the amount of public spending by level of government.¹⁴² He correctly points out, however, that the source of funding is as important as the proportion of public money spent by the ‘lower’ levels of government. Thus, constituent units are more autonomous if they control their own sources of revenue (through direct taxation or their ability to borrow, for instance) than they are when obtaining fiscal resources through central government transfers.¹⁴³ Of course, even with fiscal transfers, there are nuances. Unconditional transfers leave more room for constituent unit autonomy than conditional ones.

Rodden’s argument notwithstanding, fiscal transfers do not give the same kind of political leverage to central governments in multinational states as they do in nationally homogeneous polities. Where a constituent unit is a homeland for an ethnic minority group, central government transfers, especially unconditional ones, can *enhance* the political autonomy of the regional government. Such transfers would grant more resources with which the minority elites could either win or maintain support among their followers. The logic behind the central government’s fiscal influence is that it can

¹⁴² Rodden, “Comparative Federalism and Decentralization - On Meaning and Measurement,” 482.

¹⁴³ *Ibid.*, 484.

withdraw resources from the uncooperative constituent unit.¹⁴⁴ Employing fiscal leverage against minority-inhabited constituent units is, however, politically risky, since it can be interpreted as an attack on the interests of the minority nation, with profoundly destabilizing political consequences, including the threat of secession.¹⁴⁵ Such a dynamic carries far graver consequences than do fiscal battles in nationally homogeneous multi-level polities. For this reason the politics of classical fiscal policy in federations do not necessarily apply to multinational states. Therefore, in the case of multinational states, the share of public *spending* by constituent units can be an adequate indicator of fiscal autonomy.

These three dimensions of autonomy – the political, policy, and fiscal - will be used to assess the *extent* or *degree* of autonomy in cases studied herein. Relying on the extent of autonomy alone, however, would be perilous given the significant differences in political circumstances of the four case studies under examination here. It is necessary, therefore, to analyze how this extent of autonomy held up over time and the kinds of pressures it was subjected to in each case. In light of these concerns, the second indicator of accommodative capacity of governments in the four cases will be what I call the durability of autonomy.

¹⁴⁴ Mexico's central government was notorious for doing this during the latter stages of Institutional Revolutionary Party's (PRI) domination. de Figueiredo and Weingast, "Self-Enforcing Federalism," 105–06. One need not have a particularly vivid imagination to guess what would happen if the central government of Canada or Spain were to engage in similar behaviour toward Quebec or Catalonia. Mexico's government, ruling a nation-state, on the other hand, was able to get away with it without detrimental consequences for state unity.

¹⁴⁵ A similar political move would be less likely to carry the same political consequences if directed against a region inhabited by members of a majority group. Yet, the case of Canadian government's fiscal and energy policies toward Alberta suggest that political backlash is sometimes possible even in majority-inhabited regions. Nevertheless, Alberta's secession, unlike that of Quebec, was never a serious possibility.

Durability of Territorial Autonomy

The durability of territorial autonomy can be assessed by looking at how the central government treats the relevant territorial unit *over time*. Assessing durability requires the understanding of government policies both toward the *existing* elements of autonomy achieved by the constituent units, and toward demands for *further* decentralization. The central government can accept, expand, or reduce the existing institutional levers of autonomy. With respect to demands for more autonomy, the central government could either ignore those demands, or devolve additional powers to the territorial unit whose government demands them.

Assessing the sustainability of autonomy requires an understanding of both the formal and informal rules of multi-level governance in multinational states. In other words, it is not enough to look at the formal division of policy-making competencies between levels of government and conclude that a constituent unit has more or less autonomy at time $t+x$ than it had at time t . One also must investigate how the two levels of government actually interact. In light of this requirement, my dissertation necessitates not only an inter-case comparison, but also historical within-case examination of the dynamics of accommodation. Within-case analysis therefore has a dual purpose in this analysis: to facilitate the assessment of the central hypotheses offered in this thesis, and to enhance the conceptualization of this important aspect of the dependent variable.¹⁴⁶

The dependent variable is a combination of the extent of autonomy, and, more importantly, the *dynamics* of relations between the central and sub-state level governments (increasing or decreasing autonomy). In other words, ‘capacity’ is lower

¹⁴⁶ On the importance of process-tracing in small n analyses, see George and Bennett, *Case Studies and Theory Development in the Social Sciences*, Ch. 10.

where the central government seeks, and manages, to limit or reverse autonomy already attained, and higher where the government continues to enhance, or at the very least accept, the existing levels of autonomy. The direction of change is particularly important in understanding ‘accommodative capacity’. I reiterate that I will focus particularly on the central government’s treatment of fiscal and economic policy autonomy of the relevant constituent units.

2.2. Defining the Independent Variables

The argument presented in this dissertation rests on the interaction of two key factors: the relative level of economic development of majority- and minority-inhabited territories, and the strategies employed by central governments. In the interest of theoretical clarity, I will simplify the inherent complexity of the two variables and reduce them to binary opposites: more and less developed majorities and statist (big government) and laissez-faire (small government) strategies of governance. In the analysis of the case studies (chapters 3 to 6), I offer a more nuanced interpretation of the independent variables in each of the countries studied, in order to strengthen my conclusions and avoid imposing a simple theoretical lens on significantly more complex social reality.

Relative Levels of Development

The first independent variable is the relative level of economic development of the areas inhabited by the major ethno-national groups. I will use terms ‘territory’ and ‘group’ interchangeably in the remainder of this thesis. Thus, when referring to “relative levels of development of majority (or minority) groups”, I mean relative levels of

economic development of regions in which each group is demographically dominant. As my framework rests on *relative* levels of regional development, this necessitates the examination of the levels of economic development of *all* relevant territorial units, those inhabited by majorities as well as minorities.

The main indicator I use to measure relative levels of regional development is per capita GDP or its equivalent. Since the relative size of regional economies also matters for the accommodative outcomes, I will outline the share of each of the relevant territories in the total GDP of the country. After all, even a very wealthy territorial unit will not make a significant contribution to the central government budget if it is of negligible size. Where the majority population inhabits more than one territorial unit, such as Canada's Anglophone population, or Spain's Castilian-speaking majority, I will combine the statistics of those territorial units to demonstrate the relative levels of majority-group economic development. In addition, I will also note the average levels of unemployment for the relevant groups, which are suggestive of the drain of the constituent units on the central state budget.

Each of the four cases studied in this thesis has its own economic specificities. These will be discussed in order to paint a more complete picture of the relative levels of regional development in each case. In socialist Yugoslavia, for example, hard currency earnings were very important and had a significant territorial dimension. Though overlapping with the share of export revenue, this is a separate indicator of the relative importance of different constituent units in the Yugoslav economy. A particularly contentious issue during the last several years of Czechoslovakia was the territorial distribution of heavy, particularly military, industry, since the transition to a market

economy in 1989 hit these industries particularly hard. In Canada, Quebec, which lagged behind the most populous Anglophone provinces in terms of material wealth, contained a dominant Anglo-Saxon economic elite.

Though each of the cases features fairly obvious economic differences between the majority- and minority-inhabited regions, the issue is not always clear cut. For example, while two of Spain's three minority regions are generally more developed than the majority-inhabited areas of the country, this does not mean that the rest of the country is universally less well-off.¹⁴⁷ For instance, Madrid is a highly developed Autonomous Community (AC), and the seat of the Spanish banking industry. But most of the Castilian-speaking (majority) ACs, including the most populous one, Andalusia, are significantly less developed than either the Basque or Catalan AC. A similarly complex picture emerges in Canada. For most of the twentieth century, its economy has been propelled by the majority-inhabited Anglophone provinces of Ontario, British Columbia, and Alberta. Over the same period, however, the Atlantic Maritimes (also mostly English-speaking) have been some of the poorest parts of the country. Conversely, Quebec also had significant industrial and financial capacity in and around Montreal.

In Yugoslavia, the relatively more developed Croatia also contained significant pockets of underdevelopment. Serbia is difficult to categorize, since it contained one of the most developed areas, the rich agricultural plain in Vojvodina, as well as by far the poorest part of the country, its southern province of Kosovo.¹⁴⁸ Nonetheless, it is fairly clear that in the aggregate, Slovenia and Croatia were disproportionate contributors to the

¹⁴⁷ The Basque-inhabited Autonomous Communities and Catalonia have per capita GDP significantly higher than the Spanish average; Galicia does not.

¹⁴⁸ Yugoslavia's capital, Belgrade, was also located in Serbia, with its own industries, banks and, of course, the federal government.

country's GDP, whereas most of the rest of the constituent units ranked below the Yugoslav average. A similarly nuanced story can be told about Czechoslovakia. By 1989, in large part as a result of long-standing transfers from the wealthier part of the federation, Slovakia was close to being on a par with the Czech Republic in terms of overall economic development. However, the excessive concentration of heavy industries in Slovakia made it particularly ill-prepared for the transition to a market economy. Thus, despite the apparent economic equality of the two halves of the country, the differential *quality* of development contributed to a much weaker position of Slovakia than seemed to be the case *prima facie*. Therefore, in addition to the general indicators such as per capita GDP, idiosyncrasies of each of the cases will be taken into account when assessing the relative levels of development.

Strategies of Governance

I define governing strategies as combinations of programmatic ideas held by central state elites and general policies which those ideas influence.¹⁴⁹ Strategies of governance determine the extent of a state's involvement in society, including the total level of fiscal resources required by the government, with all the consequences that this carries for accommodative capacity.¹⁵⁰ I will place emphasis on government activities that are most closely related to the use and distribution of material resources, that is to say, economic and social policies.

¹⁴⁹ For a definition of programmatic ideas, see Vivien A. Schmidt, "Discursive Institutionalism: The Explanatory Power of Ideas and Discourse," *Annual Review of Political Science* 11, no. 1 (2008): 306.

¹⁵⁰ I elaborate on this in the section on hypotheses below.

There is, of course, much more to different economic policy models than simply ‘more or less government.’ Qualitative differences between capitalist economies have resulted in an extensive literature on the ‘varieties of capitalism’.¹⁵¹ Nevertheless, the literature reveals some basic ideal types of economic policy paradigms. These range from liberal ones, where the role of the state is minimal, to the statist, where the role of the state is comprehensive.¹⁵² More interventionist policy paradigms tend to include extensive industrial and regional development policies, as well as significant state ownership of industries.¹⁵³ Summarizing a classical view of this distinction, Fred Block describes the continuum of different degrees (and types) of state intervention in the economy. His continuum includes, from least to most interventionist, the public goods state, the macroeconomic stabilization state, the social rights state, the developmental state and, finally, the socialist state.¹⁵⁴

Focusing solely on economic policy would not address the full scope of governmental activity that is of interest here, especially since it would exclude items that make up the largest proportion of public spending in contemporary states. These are social policies, including welfare, unemployment insurance, education, and health care. To the extent to which wealth is distributed unevenly across a state’s territory, social programs, if they are extensive, can amount to large-scale territorial redistribution of

¹⁵¹ This is the ‘varieties of capitalism’ literature. For representative works, see Peter A. Hall and David W. Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001); John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca: Cornell University Press, 1983); Bob Hancké, Martin Rhodes, and Mark Thatcher, eds., *Beyond Varieties of Capitalism: Conflict, Contradiction, and Complementarities in the European Economy* (Oxford: Oxford University Press, 2007); Uwe. Becker, *Open Varieties of Capitalism: Continuity, Change and Performances* (New York: Palgrave Macmillan, 2009).

¹⁵² *Ibid.*, 57–59.

¹⁵³ For a thorough theoretical and empirical overview of approaches to industrial policy, see Pierre-André Buigues and Khalid Sekkat, *Industrial Policy in Europe, Japan and the USA: Amounts, Mechanisms and Effectiveness* (Basingstoke, Hampshire: Palgrave Macmillan, 2009).

¹⁵⁴ Fred Block, “The Roles of the State in the Economy,” in *The Handbook of Economic Sociology*, ed. Neil Smelser and Richard Swedberg (Princeton: Princeton University Press, 1994), 692.

income. If the beneficiaries of these programs are majorities, with minorities footing the bill, the political implications are different than if the situation is reversed. Therefore, the extent and nature of the welfare state is an important part of the central state governance strategy.

Combining social and economic policies into a single indicator must be done with caution, because a government may pursue economic and social policies that seem to contradict each other. For instance, a liberal economy can be buffered by an extensive welfare state, as was the case with many small Western European economies during the 1980s.¹⁵⁵ On the other hand, a state with extensive control over the economy might not be generous when it comes to social welfare provisions, as some East Asian ‘developmental states’ have shown.¹⁵⁶

While I acknowledge that strategies of governance differ in important ways which can only be assessed qualitatively, I place greater emphasis on their quantitative aspects, particularly in terms of the fiscal burden that they place on the society. I do this for the following reasons. First, regardless of the qualitative features of each particular paradigm of governance, some strategies demand greater fiscal resources than others. Thus, socialist and Keynesian approaches to public policy might differ in important qualitative aspects. Nevertheless, they both entail significant levels of public expenditure, albeit for

¹⁵⁵ Peter J Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1985).

¹⁵⁶ Thus, in the case of the East Asian tigers, especially the larger ones such as Taiwan and South Korea, the state has played a significant role in determining the pattern of economic development. Institutional tools of government intervention included ownership of public enterprises (in Taiwan in particular), public banking system (in Korea), state subsidies for ‘strategic’ industries, and selective trade protection of such industries. Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990). At the same time, however, political commitment to rapid growth meant that social spending needed to be kept at a politically feasible minimum. For the development of the social welfare state in these countries, see Joseph Wong, *Healthy Democracies: Welfare Politics in Taiwan and South Korea* (Ithaca: Cornell University Press, 2004), Ch. 3.

different purposes. On the other hand, liberal and developmental strategies of governance differ in the level of government involvement in investment decisions and industry ownership, yet they both emphasize the need for macroeconomic stability and a low tax burden. A government that seeks to limit government spending will be in a different position with respect to accommodation of minority-inhabited regions than will one that seeks to expand government spending. The second reason I opt for a simplifying quantitative perspective on strategies of governance is that a complex typology of strategies would unduly complicate my argument with few theoretical payoffs.

Programmatic ideas about the role of the state in the economy are very important indicators, as well as drivers, of particular governing strategies.¹⁵⁷ Such programmatic ideas

[d]efine the problems to be solved by [appropriate] policies; the issues to be considered; the goals to be achieved; the norms, methods, and instruments to be applied; and the ideals that frame the more immediate policy ideas proposed to solve any given problem.¹⁵⁸

Ideas, particularly those that are well institutionalized, can lock in policy paradigms for long periods of time.¹⁵⁹ Paradigms of governance become entrenched through prolonged political struggles, usually following profound political crises. Such was the case with the Keynesian revolution, as well as with the neo-liberal revolution of the 1970s and 1980s.¹⁶⁰ Once the struggles subside, what remains is a paradigm of what Haas calls

¹⁵⁷ For an excellent overview of theoretical approaches to ideational causation, see Schmidt. Schmidt, "Discursive Institutionalism."

¹⁵⁸ *Ibid.*, 306.

¹⁵⁹ For a key role of institutionalized ideas in political economy, see Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (New York: Cambridge University Press, 2002). On policy paradigms, see Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," *Comparative Politics* 25, no. 3 (1993): 275-296.

¹⁶⁰ On Keynesianism, see Peter A Hall, ed., *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton: Princeton University Press, 1989). On neoliberalism, see Colin Hay, "The Genealogy

‘consensual knowledge.’¹⁶¹ Often, the emerging ideological consensus is a post-hoc rationalization of policy-making by ‘muddling-through,’ rather than a product of neatly thought-through scientific analysis.¹⁶² This consensual knowledge about a particular issue then frames all future policy debates until the next programmatic framework emerges. Indeed, once paradigms, particularly those pertaining to economic affairs, become prevalent, they begin informing the policy decisions of parties on both sides of the political spectrum. It is thus unsurprising that so many social democratic parties would implement neoliberal economic reforms quite similar to those advocated by their conservative counterparts.¹⁶³

I have emphasized the independent causal role of ideas for two reasons. First, I argue that governing strategies are not subject to easy change. Rather, they are structural factors in their own right, factors that therefore present constraints on accommodative capacity which are as serious and nearly as difficult to alter (depending on the historical moment) as the relative distribution of wealth in a given state. Second, I will also emphasize that governing strategies and the ideas underpinning them are not derivative of the ethnopolitical dynamics in any of the four cases. In other words, *the governing strategies in each of the four cases have been driven by exogenous factors.*

This is why I conceive of strategies of governance not only as specific policies implemented by particular governments, but rather as a combination of policies and their ideational underpinnings as expressed in government programmes and other statements

of Neoliberalism,” in *Neoliberalism: National and Regional Experiments with Global Ideas*, ed. Ravi K Roy, Arthur Denzau, and Thomas D Willett (London: Routledge, 2007).

¹⁶¹ Ernst B Haas, *When Knowledge Is Power: Three Models of Change in International Organizations* (Berkeley: University of California Press, 1990), 20.

¹⁶² Ngaire Woods, “Economic Ideas and International Relations: Beyond Rational Neglect,” *International Studies Quarterly* 39, no. 2 (1995): 173.

¹⁶³ Andrew Glyn, ed., *Social Democracy in Neoliberal Times: The Left and Economic Policy Since 1980* (Oxford: Oxford University Press, 2001).

made by central state elites. I consider the combination of these two elements a sufficient indicator of particular strategies of governance employed by the central elites in countries under investigation. For the purpose of parsimony, I treat strategies of governance as belonging to two ideal types: statist ('big government') and laissez-faire ('small government'). I opted to call the interventionist strategies 'statist' rather than 'dirigiste' because dirigisme suggests the presence of industrial policy. However, as I have shown above, not all statist governing strategies are necessarily dirigiste. Statism encompasses dirigisme, whereas dirigisme does not subsume all aspects of statism, such as the provision of extensive social programs.

On the other hand, I have opted to call strategies requiring a lesser role for the state in society 'laissez-faire', rather than 'liberal.' The term 'liberal' has too many normative implications, which I strive to avoid in my analysis. Though each of the cases selected for analysis will be classified as an instance of either a statist or a laissez-faire polity, I note the aspects of governing strategies that deviate from the category in which I have placed each country. In so doing, I reduce the possibility of tailoring my cases to the hypotheses I am proposing and testing.

2.3. Hypotheses

Combining the relative levels of development with the governing strategies outlined above produces six possible outcomes. I will focus on the four combinations that feature material disparities between the relevant regions. They are: the combination of more developed majority regions with either statist or laissez-faire strategies of governance; and the combination of less developed majority regions with either statist or

laissez-faire governance strategies. The two possibilities I omit from this study entail cases in which the majority- and minority-inhabited areas are at equal levels of economic development, with either statist or laissez-faire governing strategies.¹⁶⁴ The redistributive implications in such cases are simply not as stark given that the central government would most likely have to rely on all groups to an equal extent, making accommodation a function of other factors, rather than an issue of governability. In addition, most multinational states exhibit a fairly obvious ‘ethnic division of labour’, with notable economic differences among the constituent groups.

Each configuration of factors has different implications for accommodative capacity. The following hypotheses outline the expected direction of correlation between the posited independent and dependent variables for each combination of causal factors. More importantly, they also specify the expected links, or causal mechanisms, between the two sets of variables.

- i. Multinational states with a relatively *more developed majority* group, whose governing elites adopt *statist* strategies of governance, should exhibit relatively high levels of accommodative capacity. Statist strategies of governance, as they are defined in this chapter, require extensive fiscal resources. The fiscal capacity necessary to fund such a strategy is greater in a majority-inhabited, wealthier, area than in the minority-inhabited, poorer region(s). The central government can therefore rely on the more developed majority, rather than on the less developed minorities, for the fiscal resources necessary in order to implement state-wide

¹⁶⁴ Of course, the number of possible categories would increase further if my hypotheses were to include variations in absolute levels of wealth for situations where groups are approximately evenly developed. Relatively evenly developed regions could, taken together, be either underdeveloped, highly developed, or any number of options in between.

policies. This has significant implications for accommodative capacity. Namely, the central government can afford to forgo the fiscal resources of the minority-inhabited regions, since it can still raise sufficient revenue from the wealthy, majority-inhabited regions. As I have already noted, majorities tend to be significantly more supportive of the common state, and the costs associated with funding it, than do minorities.¹⁶⁵ In this case, conceding extensive autonomy, including fiscal and economic self-governance, to the relevant constituent units is unlikely to compromise the central government's ability to fund and provide public goods in line with its strategy. I am not arguing that a statist central government would completely forgo the fiscal resources of the minority-inhabited regions. Rather, its fiscal claims would be less onerous than if the territorial distribution of resources were reversed (poorer majority, wealthier minority).

Yet another reason for higher accommodative capacity in this scenario is the mutual compatibility of governing strategies pursued by regional and central governments. While one cannot automatically extrapolate ideological preferences from a group's material status, relatively less developed minority groups tend to demand statist solutions to their economic problems.¹⁶⁶ This dynamic has its equivalent in the international system, where more developed states have tended to favour free trade, while the less developed ones have favoured protectionist measures (and a more interventionist state) in order to strengthen their economies.¹⁶⁷ The central government and the government of the minority-

¹⁶⁵ Elkins and Sides, "Can Institutions Build Unity in Multiethnic States?"

¹⁶⁶ I will discuss and demonstrate this in the following four chapters.

¹⁶⁷ The most well known early critique of free trade was offered by Friedrich List in mid-19th century. For a concise overview of his ideas, see D. Levi-Faur, "Friedrich List and the Political Economy of the Nation-

inhabited region would therefore pursue similar policy priorities. As a result, policy-motivated friction should be less pronounced than if the two governments were to embrace divergent policy priorities.

With mutually compatible strategies adopted at both levels, the central government would have less reason to be apprehensive about extending autonomy to the minority-inhabited region. Of course, such general compatibility does not guarantee absence of conflict between the two levels of government. Certainly, bargaining over the exact nature of the division of competencies and the precise allocation of resources would continue. I emphasize, however, the extent to which such conflicts tend to be magnified in situations where the two governments are committed to fundamentally different strategies of governance. In such a case, ideological differences would overlap with, and reinforce, the ethno-political dimension of conflict and make accommodation far more problematic.¹⁶⁸

The situation is more ambiguous than this hypothesis suggests, however. Namely, statist strategies of governance often entail a strong role for the central government, though this is not necessarily the case. If common-state political elites insist that the central government must provide most of the important public goods, they might not be willing to offer extensive autonomy to the minority-inhabited region. Yet, as was already stated, should the minority elites wish to implement similar statist policies/strategies, the friction should be lessened

state,” *Review of International Political Economy* 4, no. 1 (1997): 154-178. For the political and economic logic behind government interventionism in the economy, see Meredith Woo-Cumings, ed., *The Developmental State* (Ithaca: Cornell University Press, 1999); also Wade, *Governing the Market*, and Alice H Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989).

¹⁶⁸ I will demonstrate this with the cases of Czechoslovakia and Yugoslavia.

compared to a situation in which the ideological conflict would be superimposed upon the jurisdictional one.

- ii. Where a multinational state contains a *more developed majority group*, but its governing elites subscribe to a *laissez-faire* strategy of governance, accommodative capacity should be relatively low. In comparison to statist strategies of governance, laissez-faire strategies imply a lower fiscal burden for all groups in a given polity. On the other hand, laissez-faire strategies also entail the continuation of existing patterns of territorial inequality. Unfettered market forces tend to exacerbate territorial concentration of wealth and reinforce regional economic inequalities. Economic theory explains this outcome by reference to the positive externalities resulting from economies of scale and scope.¹⁶⁹ Where the most important business activities, such as research and development, finance and production, are all located in one place, the costs of doing business are lower and productivity tends to be higher. As a result, new investment usually flows to the already developed regions.¹⁷⁰ Therefore, successful regions keep their advantages and the have-not regions tend to remain permanent laggards.

This pattern of development is likely to produce particular types of minority grievances.¹⁷¹ Political representatives of less-developed ethnic

¹⁶⁹ Alfred Marshall's pioneering work paved the way for the study of economic clustering. Alfred Marshall, *Principles of Economics* (London and New York: Macmillan and co, 1890).

¹⁷⁰ Albert O Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958); Nicholas Kaldor, "The Irrelevance of Equilibrium Economics," *The Economic Journal* 82, no. 328 (1972): 1237-1255; Paul R Krugman, *Geography and Trade* (Leuven: Leuven University Press, 1991); Gunnar Myrdal, *Economic Theory and Under-Developed Regions* (London: G. Duckworth, 1957).

¹⁷¹ Nationally homogeneous states are subject to similar economic inequalities. However, in such states, the mobility of the population in search of better economic opportunities is not nearly as problematic as it is in multinational states in which identity and economic differences overlap. Leaving an economically depressed area is not an attractive option if the more promising destination is a region with a foreign language and culture.

minorities are likely to oppose the central government's laissez-faire policies which they see as locking them into a permanent pattern of underdevelopment. Identity politics is thereby reinforced by the political economy of uneven development.

Territorial autonomy has the potential to halt and reverse the established patterns of economic underdevelopment. In other words, minority elites can use the institutions of regional government to implement policies that would privilege economic development in the minority-inhabited area. To the extent to which such policies are fiscally expansionist they could, depending on the size and population of the area in question, compromise the central government's policy efforts, especially macroeconomic stability.¹⁷² This disruptive potential of autonomy is likely to undermine the central elites' willingness to accommodate minority demands for autonomy.

A caveat is in order. Laissez-faire strategies of governance might also be conducive to institutional and political autonomy, so, again, the effect of governing strategies here is ambiguous. If minority elites share the central government's commitment to a laissez-faire approach to development, the conflict with the central state should be lessened and accommodative capacity enhanced. However, this would require that the minority elite be able to persuade most of the minority population that liberal economic strategies are beneficial for the group, a difficult proposition if uneven development continues.

¹⁷² A key goal associated with such strategies is usually low inflation (price stability), theoretically achieved by balanced budgets and low or moderate public spending.

iii. If a multinational state is inhabited by a *less developed majority* and if the central elites adopt a *statist* strategy of governance, the central government's accommodative capacity should be low. As mentioned above, statist strategies necessitate extensive financial resources. In this situation, however, the funds necessary to fuel expansionist policies would have to come from the more developed *minority* group(s), given that material wealth would be disproportionately concentrated in the minority-inhabited regions.¹⁷³ This dynamic tends to produce claims of exploitation by the more developed minority groups and their political representatives. Minority elites can use territorial autonomy in order to protect the economic interests of their group. Granting wide-ranging fiscal autonomy to the minority-inhabited regions would mean that the central government would starve itself of the funds necessary for the implementation of its governing strategy. Consequently, in this scenario fiscal and economic autonomy for minorities is likely to be modest.

Implicit in the above hypothesis is the heightened potential for ideologically-based conflict between the autonomous region and the central government. Political elites in the more developed, minority-inhabited, regions tend to support *laissez-faire* economic policies. They recognize that statist strategies imply a hefty fiscal burden for their own region, just as they understand that *laissez-faire* strategies contribute to the regions' continued economic

¹⁷³ Of course, this also depends on the size of the group. A small but wealthy group might not be particularly important, in which case accommodation might be more feasible. As I will show in Chapter 6, this was the case with the Basque Country in Spain.

dominance.¹⁷⁴ To the extent that central governing elites subscribe to statist policies and ideas, ethno-political conflict would be reinforced by ideological disagreements.

- iv. Finally, where the majority population of a multinational state is *less developed* and the governing elites adopt a *laissez-faire* strategy of governance, accommodative capacity should be high. As already mentioned, laissez-faire governing strategies require more modest fiscal resources than do interventionist alternatives. A central government dedicated to such a strategy can afford to forgo the fiscal resources in favour of the regional governments of minority regions. This configuration would therefore make extensive autonomy more plausible than would the previously discussed scenario. In addition, as has already been stated, more developed minorities tend also to embrace laissez-faire governing strategies, precisely because such strategies can help preserve their region's economic pre-eminence. Consequently, the ideological friction between the two levels of government should be at most moderate, even if they disagree on particular policies. These considerations should make territorial accommodation both fairly extensive and sustainable.

The main caveat concerning this configuration of causal factors concerns the ability of central governments to continue embracing laissez-faire policies if the majority population continues to experience levels of development lower than those of their minority counterparts. If economic liberalism is a hegemonic idea

¹⁷⁴ Not every statist policy is redistributive. In some cases, governments use state intervention in order to enhance the performance of the already more developed regions in the hope that the rising tide in those will lift all boats. Where this type of statism is adopted, the accommodative outcomes might be different from the ones hypothesized here.

among the majority population, this should not pose a problem. However, if the majority population continues experiencing economic hardship, its political leaders are likely to start voicing demands for a more interventionist strategy in the interest of territorially balanced economic development.

2.4. Method

Demonstrating and testing the theoretical model outlined in this chapter requires a comparison of at least four cases. Since I also intend to probe the causal mechanisms linking the hypothesized configurations to accommodative outcomes, I have opted to combine the small-*n* comparative method with within-case process-tracing.

Along with Lijphart, I conceive of the comparative method as a means by which one may establish the presence of a correlation between the independent and dependent variables.¹⁷⁵ In this sense, the comparative method is a less rigorous substitute for large-*n*, quantitative analysis. I fully acknowledge the limitations of this approach in establishing firm correlation between the hypothesized variables. I therefore emphasize that the conclusions of this dissertation are tentative and that the argument should be tested and refined further. As a step in this direction, in the concluding chapter I qualify the central argument in light of the empirical analysis conducted in the rest of this dissertation. I also briefly assess its applicability to several additional cases.

Nevertheless, I believe that the comparative framework that I have devised furnishes important counterfactuals, imperfect though they are, for each of my cases. These counterfactuals demonstrate how a change in any of the two variables outlined

¹⁷⁵ A. Lijphart, "Comparative Politics and the Comparative Method," *American Political Science Review* 65, no. 3 (1971): 684.

above can change the effective capacity of governments in multinational states to accommodate minority demands for territorial autonomy. In other words, a change in either the strategy of governance or in relative levels of development places different constraints and produces different pressures that influence the ability of central governments to accommodate demands for autonomy. Furthermore, small-*n* comparisons are useful not only for theory-testing, but also for theory-building, where each comparative observation has the potential to uncover a new theoretical insight which can contribute to a richer, more accurate, and more complete explanation. I take my cues in this from the long tradition of similar works of comparative historical analysis, from Barrington Moore through Theda Skocpol to Gregory Luebbert and Thomas Ertman.¹⁷⁶

Combining the comparative method with within-case analysis serves two functions. First, such analysis can strengthen the inference based on the comparison I will undertake. Namely, in several of the cases I have selected, the value on one of the independent variables has changed over time.¹⁷⁷ Within-case analysis therefore increases the number of observations on which I can base my conclusions about the correlation between the independent and dependent variables.¹⁷⁸ Second, within-case analysis allows for the exploration of causal mechanisms that are such an important component of the

¹⁷⁶ Ertman, *Birth of the Leviathan*; Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (London: Penguin, 1967); Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia, and China* (Cambridge: Cambridge University Press, 1979); Gregory M Luebbert, *Liberalism, Fascism, or Social Democracy: Social Classes and the Political Origins of Regimes in Interwar Europe* (New York: Oxford University Press, 1991).

¹⁷⁷ For instance, strategies of governance had shifted in both Yugoslavia and Spain during the time period studied.

¹⁷⁸ As per King, Keohane and Verba's recommendations. Gary King, Robert O Keohane, and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton: Princeton University Press, 1994).

present theoretical framework.¹⁷⁹ I focus specifically on the extent to which central state elites consider accommodation to limit their ability to implement their preferred strategies of governance. This, often implicit, calculus is at the base of the argument presented herein.¹⁸⁰ Within-case analysis is the only way in which to assess the functioning of the hypothesized causal mechanisms.

I believe that this mix of methods is best characterized by what Bennett and George call a structured, focused comparison. They describe this method in the following way:

The method is “structured” in that the researcher writes general questions that reflect the research objective and that these questions are asked of each case under study to guide and standardize data collection, thereby making systematic comparison and cumulation of the findings of the cases possible. The method is “focused” in that it deals only with certain aspects of the historical cases examined.¹⁸¹

The “focus” of my study is on the ability of central governments to accommodate minority demands for territorial autonomy in an extensive and durable manner. I will therefore look at this outcome in each of the four cases. I do not consider other, related issues, such as the survival of the state itself; secession or its absence; and levels of group integration in different multinational states.¹⁸² This is particularly important in light of

¹⁷⁹ On the importance of causal mechanisms in causal theorizing, see James Mahoney, “After KKV: The New Methodology of Qualitative Research,” *World Politics* 62, no. 1 (2010): 120-147, and Tulia G. Falletti and Julia F. Lynch, “Context and Causal Mechanisms in Political Analysis,” *Comparative Political Studies* 42, no. 9 (2009): 1143-1166.

¹⁸⁰ I should note that it is easier to obtain the ‘smoking gun’ evidence of the correlation between the variables hypothesized in this dissertation where accommodation does exert pressure (potential or actual) on the governing strategy of the central government. Where there is no such pressure (in other words, in those cases where I argue that the accommodative capacity is high), we are unlikely to find explicit evidence. In other words, where governing elites feel that autonomy is not a hindrance to their strategy of governance, they are unlikely to reason “we have accommodated region x because this did not prevent us from expanding our social programs (or establishing macroeconomic stability)”. Structural factors such as those outlined here do not become salient to political actors until they become costly to them. Rather, they form part of the political landscape usually taken for granted.

¹⁸¹ George and Bennett, *Case Studies and Theory Development in the Social Sciences*, 67.

¹⁸² Though the findings hold important implications for all of these issues as well.

the potentially misleading outcomes in the case of Yugoslavia and Czechoslovakia, both of which have broken up. While dissolution was in each instance related to the two states' problems with accommodation, I am not trying to explain why they broke apart while Canada and Spain did not.

The emphasis in 'structured, focused comparisons' is on asking the same questions in each of the cases that are being compared. There are several broad questions that guide my analysis of each of the four states. First, I try to ascertain the relative levels of development and governing strategies in each instance. Second, I identify the outcomes of interest for all cases, as specified in the 'dependent variable' section above. Finally, I examine the historical record, with the help of both primary and secondary sources, in order to establish the link between the hypothesized independent variables and the outcomes. For this purpose, I ask how the particular configurations of material factors and central elites' policies have influenced central government responses to demands for territorial autonomy. Answers will in each case depend on both the exploration of the dynamics of the particular case, as well as on the comparison with the dynamics in other cases, facing divergent configurations of causal factors.

While I focus my inquiry on questions detailed in the previous paragraph, I also address some broader contextual patterns in each of the four cases analyzed. Factors exogenous to the theoretical framework outlined in this chapter can influence the workings of the independent variables and causal mechanisms that I am using to explain accommodative capacity.¹⁸³ In constructing the causal narratives to explain the accommodative capacity of governments in the four cases selected, I therefore address features of the political landscape external to my theoretical model. I do this only to the

¹⁸³ Falletti and Lynch, "Context and Causal Mechanisms in Political Analysis," 1144.

extent that these exogenous variables compete with or compliment my explanation. Contextualizing my explanation in this manner reinforces the argument by either integrating or explaining away alternative variables, while also showing the limits of the claims I put forward in this work.

2.5. Case Selection

Similarities

A number of states today qualify as ethnofederal. The number increases if we include countries that are not formally federal but have incorporated some degree of multi-level governance in their institutional architecture. One edited volume on ‘multinational’ federations includes chapters on the following federal polities: Belgium, Canada, the European Union, India, Malaysia, Russia, Spain, and Switzerland.¹⁸⁴ Other states that might plausibly qualify as ethnofederations are Bosnia, Ethiopia, Iraq, Nigeria, Pakistan, Sudan, and the United Kingdom. Territorial autonomy on ethnic grounds has been considered or demanded in a number of other places. For example, the Annan Plan would have turned Cyprus into an ethnofederal state.¹⁸⁵ Furthermore, had the Sri Lankan conflict wound down in a peaceful fashion, it is quite likely that some form of territorial autonomy would have been worked out for the Tamil-inhabited North and East.

Still, this is not a large universe of cases, and case selection has been made even more difficult by the obvious diversity of circumstances among these countries. I have selected four cases that approximate the necessary values on the independent variables:

¹⁸⁴ Michael Burgess and John Pinder, eds., *Multinational Federations* (London: Routledge, 2007).

¹⁸⁵ Ahmet Sözen and Kudret Özersay, “The Annan Plan: State Succession or Continuity,” *Middle Eastern Studies* 43, no. 1 (2007): 125.

Yugoslavia, Canada, Czechoslovakia, and Spain.¹⁸⁶ These cases differ in many respects. But as Rueschemeyer and Mahoney note, when undertaking a historical comparison, one judges comparability based on the theoretical framework. A comparison could thus

[...]encompass cases that from a different point of view may appear to be quite dissimilar. In this sense, a focus on sufficiently similar cases in no way excludes comparisons of highly diverse contexts, including diverse contexts in which similar processes and outcomes take place.¹⁸⁷

While the cases I have chosen are by no means as similar as one might wish, they do share a number of important features.

First, each of the cases contains at least one territorially concentrated and politically significant minority group with a historical claim to a particular region of the common state.¹⁸⁸ As Cunningham notes, the relative size and territorial compactness of a group relates to the relative power of self-determination movements.¹⁸⁹ Thus, the larger a group is, provided that it is also territorially concentrated, the more leverage its leaders should have vis-à-vis the central state. In turn, this relative power “should be a key determinant of whether the state wants to accommodate the movement because this should determine the size of concessions that the state needs to make.”¹⁹⁰ In the four cases selected, all relevant minority nations are/were similar in size relative to the population of the common state.¹⁹¹ Second, in each case, the political leaders of these groups have demanded greater group recognition and political influence, including

¹⁸⁶ Following King, Keohane and Verba’s recommendation to select cases on the independent variable. King, Keohane, and Verba, *Designing Social Inquiry*, 140.

¹⁸⁷ Mahoney and Rueschemeyer, “Comparative Historical Analysis: Achievements and Agendas,” 8.

¹⁸⁸ By ‘politically significant’ I mean a group most of whose members consider themselves to be in some significant way different from the rest of the state’s population, and where those members believe that such difference deserves political and institutional recognition.

¹⁸⁹ Kathleen Gallagher Cunningham, “Divide and Conquer or Divide and Concede: How Do States Respond to Internally Divided Separatists?” *American Political Science Review* 105, no. 2 (2011): 286.

¹⁹⁰ *Ibid.*

¹⁹¹ Demographic data is available in the Appendices.

territorial autonomy. Thus, the pressure exerted on central governments of the four states, though dissimilar in intensity, was similar in kind. In all cases, the threat of unrest or secession was the ultimate tool wielded by the autonomy-minded political elites.¹⁹²

Third, in none of the four cases has the push for greater autonomy been made in the immediate aftermath of armed conflict. This is an important parallel, since demands for autonomy in the aftermath of wars present quite a different political challenge than those made during peacetime. Of course, people in both Spain and the former Yugoslavia had fairly recent memories of wars (4 and 2 decades respectively) when demands for autonomy were voiced. Nevertheless, both Spain and Yugoslavia were essentially peacetime states during the events of interest for this dissertation.

Fourth, each of the largest minority-inhabited regions included significant numbers of members of other ethnic groups, often the state-wide majority. Thus, Croatia had a sizeable Serb minority, Catalonia a very large number of Castillian-speakers, Quebec a significant Anglophone minority, and Slovakia significant numbers of Hungarians. Only in Slovakia was the largest regional minority not drawn from the common-state majority. As all cases are fairly similar on this score, the differences in the extent and durability of accommodation between the four cases are therefore unlikely to be attributable to the presence of minorities in the autonomous territories.

Dissimilarities

The four states selected for analysis present some important dissimilarities as well. First, in two of the cases, Czechoslovakia and Spain, the process of negotiation of

¹⁹² References for these claims are available in each of the four empirical chapters of this dissertation.

territorial autonomy began during regime transition. Neither Yugoslavia nor Canada faced the same transitional context. During transitional moments, when the political rules of the new regime have not yet solidified, political actors struggle for favourable institutional solutions, understanding that the new institutional design can lock in patterns of power and influence prevailing at a given moment.¹⁹³ What is the implication of this context for territorial autonomy? On the one hand, central governments might be less willing to accommodate minority demands because they do not yet know how the new territorial arrangement will interact with democratic institutions, and the degree to which it will present a future political cost for them. In other words, pervasive uncertainty might predispose central elites to resist autonomy. Yet, this outcome is by no means certain.¹⁹⁴ At any rate, the fact that Spain and Czechoslovakia moved in opposite directions in terms of accommodation suggests that the transitional context cannot, on its own, account for differences in accommodative capacity.

Second, one of the cases selected, Yugoslavia, was governed by an authoritarian regime during the period I am studying, whereas the other three states were democratic. Is it possible that the authoritarian character of the Yugoslav regime accounts for the relatively low accommodative capacity of the Yugoslav state? In fact, as I will show in Chapter 5, during the second half of the 1960s, the Yugoslav state was highly

¹⁹³ O'Donnell & Schmitter note that during transition "the rules of the political game are not defined. Not only are they in constant flux, but they are usually arduously contested; actors struggle not just to satisfy their immediate interests and/or the interests of those whom they purport to represent, but also to *define rules and procedures whose configuration will determine likely winners and losers in the future.*" Guillermo A O'Donnell and Philippe C Schmitter, *Transitions from Authoritarian Rule* (Baltimore: Johns Hopkins University Press, 1986), 6; emphasis added.

¹⁹⁴ O'Donnell & Schmitter also note the indeterminacy of outcomes during transition, precisely because political openness under these circumstances makes outcomes unforeseeable. I dispute that this is the case with respect to issues of territorial autonomy. I will demonstrate that states in transitional contexts undergo similar pressures when considering territorial autonomy, as do those which face the same pressures without regime transition.

accommodative of the demands made by the governments of some of its constituent units. The process was fraught with tension, but not because of the regime type. Rather, real decentralization was taking place, accompanied by a proliferation of centres of power, until the process was halted during the 1970s.¹⁹⁵

Third, one might simply note that each of the states analyzed in this work had developed a distinctive political culture. Canada has had much more experience with federalism than any of the other three states. This might have predisposed its elites to greater accommodation of Quebec than would have been the case had the federal political culture been absent.¹⁹⁶ I do not dismiss this argument. However, political culture can change, as attested to by the Spanish case. Despite having next to no experience with federalism and decentralization, Spain's elites have decentralized power consistently over nearly two decades, starting in 1980. In fact, despite some of the contradictions and problems inherent in the particular institutional design of the Spanish federal system, the political autonomy of Spain's Autonomous Communities remains secure. Even the anti-federalist Popular Party of Spain has, with time, moderated its stance toward territorial autonomy.

Fourth, the four cases are different in terms of numbers of autonomous movements. Where Spain contained three, and Yugoslavia potentially six, Canada and

¹⁹⁵ I will make this point more forcefully in Chapter 5. For the time being, a quote by one of the foremost scholars of Yugoslavia's politics will suffice: "The political fall-out from Yugoslavia's series of liberalizing economic and cautiously decentralizing political reforms [...] had by the 1960s produced a system which could no longer reasonably be called totalitarian or even a Party autocracy. [...] The result has been defined in this study as a polycentric polyarchy. [...] The emergence and further evolution of this polyarchy provided an interesting and suggestive case study of the circumstances under which and the extent to which a genuine political democracy can develop without a multi-party system." Dennison Rusinow, *The Yugoslav Experiment 1948-1974* (Berkeley: University of California Press, 1977), 346.

¹⁹⁶ Though authors of a recent study have concluded that Canada's federal political culture is weak, both among the general population, and among the governing elites. Patrick Fafard, François Rocher, and Catherine Côté, "The Presence (or Lack Thereof) of a Federal Culture in Canada: The Views of Canadians," *Regional & Federal Studies* 20, no. 1 (2010): 19-43.

Czechoslovakia had only one ethno-territorial movement each, if one excludes Canadian First Nations. One might expect that the political elites in states with a larger number of minority nations would be more cautious in extending territorial autonomy. Offering greater autonomy to one minority-inhabited territorial unit might prompt demands from other groups for the same treatment. However, as I show in the following chapters, no such correlation held in the four cases analyzed in this thesis. Though containing only one minority nation, Czechoslovakia and Canada displayed different accommodative patterns. Spain and Yugoslavia, each containing several minority nations, also exhibited divergent trends in decentralization at different times.

Ambiguities

Some factors that might influence the accommodative capacity of governments in multinational states are not clearly working in either direction in these four cases. The most obviously ambiguous factor is the nature of minority grievances in these four cases. In all four states, the political leaders of minority groups (Slovaks, Croats, Catalans, Québécois) were able to draw on a history of “majorization”¹⁹⁷ and domination by a larger group.¹⁹⁸ The reservoir of resentment was palpable in each case. It was perhaps the Slovaks who had the least to feel resentful about, but even here, the reality of being at

¹⁹⁷ This is a particularly popular term in contemporary Bosnia and Herzegovina. It means, in essence, the application of one person, one vote principle to multinational states, where this can lead to permanent out-voting of minorities by majorities. This was the outcome that Lijphart cautioned about in ‘divided societies.’ He suggested power-sharing mechanisms in order to prevent the permanent exclusion of minorities from power. Lijphart, *Democracy in Plural Societies*.

¹⁹⁸ For Slovaks, see Carol Skalnik Leff, *National Conflict in Czechoslovakia: The Making and Remaking of a State, 1918-1987* (Princeton: Princeton University Press, 1988); for Croats, Jill A Irvine, *The Croat Question: Partisan Politics in the Formation of the Yugoslav Socialist State* (Boulder: Westview Press, 1993); for Catalans, Daniele Conversi, *The Basques, the Catalans, and Spain: Alternative Routes to Nationalist Mobilisation* (Reno: University of Nevada Press, 1997), and for the Québécois, Jocelyn Maclure, *Quebec Identity: The Challenge of Pluralism* (Montreal and Kingston: McGill-Queen’s Press, 2003).

most a junior partner, and at worst a shunted nuisance, both during the inter-war democracy and for most of the communist era, was used to stir nationalist sentiment. The other three cases featured a history of conquest and forced mobilization (the Québécois), open civil war (Croats and Catalans), and open cultural repression (Catalans). The Québécois, however, had been able to participate in politics without explicit or implicit limits on their identity, whereas Catalans, for example, had no such opportunities. Under Franco's rule their very language was outlawed. These are just a few examples of differences in collective trauma experienced by members of minority nations. What is more important is the perception of those grievances by both the minority elites and their counterparts in the central government. The evaluation of the legitimacy of grievance, for instance, could lead a central government either to grant or to deny requests for greater autonomy. This factor, therefore, remains indeterminate in the absence of further study.

Periodization

For this study I focus on Yugoslavia in the period between 1960 and 1982, since it is during this time that demands for greater autonomy were openly articulated by the Croatian and Slovenian leadership.¹⁹⁹ This period covers both the turn toward greater liberalism in Yugoslav economic strategy (1965-1971) and the reversal of policy to statism and redistribution in the aftermath of the events of 1971.²⁰⁰ In 1982, the Yugoslav

¹⁹⁹ Rusinow, *The Yugoslav Experiment 1948-1974*; Paul Shoup, *Communism and the Yugoslav National Question* (New York: Columbia University Press, 1968).

²⁰⁰ 1971 witnessed broad-based mobilization of Croatian masses behind a moderately nationalist program of the League of Communists of Croatia. Yet, this mobilization was sufficiently threatening to the unity of the state, or was at least perceived as such, to warrant a hitherto unprecedented intrusion in the affairs of a republic. Upper echelons of Croatia's Party and state were purged by the country's president. Steven L. Burg, *Conflict and Cohesion in Socialist Yugoslavia: Political Decision Making Since 1966* (Princeton: Princeton University Press, 1983), 148–59.

government commissioned a study that launched the long process of reconsideration of that country's statist strategy of governance, which is why I end my analysis in that year. My study of Canada covers approximately the same time period, between the election of the Lesage government in Quebec in 1960 and the election of the Mulroney government in 1984. The election of the Lesage Liberals in Quebec is commonly taken as the start of the Quiet Revolution and the era of qualitatively different demands emanating from Quebec.²⁰¹ I end my inquiry in 1984 because this is the year in which the shift to a new strategy of governance was inaugurated. Keynesianism came gradually to be replaced by a more liberal strategy of governance.²⁰²

In the Spanish case I deal with the period between the transition to democracy in 1978 and 2006. I take 1978 as the beginning of the struggle for greater Catalan (as well as Basque and Galician) autonomy as this was the year that the new constitution was promulgated. I end my analysis of Spain in 2006 when Catalonia promulgated its new Statute of Autonomy, radicalizing its demands.²⁰³ Coverage of almost three decades gives a sufficient sense of how the dynamics of decentralization and accommodation have played out in the Spanish case. Finally, I examine the case of the former Czechoslovakia during the period starting with the end of communism in November of 1989 and ending with the breakup of the country in 1993. I have chosen to examine the case of Czechoslovakia during this period because it is a clear example of a strongly laissez-faire central government, combined with the relatively more developed majority region.

²⁰¹ Dale C. Thomson, *Jean Lesage & the Quiet Revolution* (Toronto: MacMillan of Canada, 1984).

²⁰² Geoffrey E Hale, *Uneasy Partnership: The Politics of Business and Government in Canada* (Peterborough: Broadview Press, 2006), 157.

²⁰³ César Colino, "Constitutional Change Without Constitutional Reform: Spanish Federalism and the Revision of Catalonia's Statute of Autonomy," *Publius* 39, no. 2 (2009): 262-288.

2.6. Data

In assessing the dependent and independent variables in each of the cases studied, I have used a combination of primary and secondary sources. For relative levels of regional development, I have gathered official measures, where possible, on per capita GDP figures, relative size of the economy for the relevant territorial units, unemployment rates, and similar indicators of relative levels of development. Such data are readily available for the former Yugoslavia, Spain, and Canada. Data on the Czechoslovak case were more difficult to obtain, so I have combined primary sources produced by different governments, first the Czechoslovak, and then, for the last year of Czechoslovakia's history, the separate Czech and the Slovak governments. For qualitative indicators of relative levels of development, I have relied mostly on secondary sources. Obviously, there is no one-to-one correspondence of this information across cases due to different accounting principles in socialist Yugoslavia, capitalist Spain and Canada, and transitional Czechoslovakia. What matters is not the comparability of relative levels of development *between* the cases, but rather the establishment of differential levels of development *within* them. In order to paint as complete a picture as possible of these differences, I have employed not only the standard measures such as per capita GDP and unemployment figures, but also whatever figures have been deemed relevant in each of the cases. For the Czechoslovak case, for example, that meant the percentage of heavy industries located in each of the two federal units.

When assessing the second component of the independent variable – the strategies of governance – I have drawn on both available secondary sources that summarize these

strategies, as well as on publicly available primary documents. I have used documents such as party programs, government policy papers, and, when necessary, constitutions, in order to corroborate or strengthen the reliability of secondary accounts. In addition, I have, where possible, interviewed either participants in the events I am analyzing, or local scholars, in order to verify my understanding of governing strategies against local knowledge of the issues.

In assessing the value of the dependent variable, as well as when formulating the causal narratives for each of the cases, I have mostly relied on the available secondary sources published in English. Where possible, I have used historical accounts of the same event from several historiographic perspectives in order to minimize the danger of bias in the selection of historical accounts.²⁰⁴ Fortunately, the events I am analyzing have given rise to an extensive literature for all four cases. In some cases, I have also used official documents and interview material in order to strengthen the validity of my conclusions.

²⁰⁴ For a discussion of selection bias in the use of history for political science purposes, see Ian S. Lustick, "History, Historiography, and Political Science: Multiple Historical Records and the Problem of Selection Bias," *The American Political Science Review* 90, no. 3 (1996): 605-618.

CHAPTER 3: Canada

Eric Hobsbawm described the twentieth century as the age of extremes. It was certainly one of the most violent periods in human history, with much of the violence being a product of competing, but incompatible, nationalist political projects. Minority groups were usually the first and the most vulnerable targets of intolerant and often murderous governments.²⁰⁵ By the admittedly low standards of the twentieth century, Canada's government has shown itself to be remarkably accommodative toward its largest minority group – the Québécois.²⁰⁶ In fact, Canada was established as a federation in 1867 specifically in order to accommodate the fact of the French presence in British North America.²⁰⁷

Despite the often uneasy coexistence of the two major ethno-linguistic groups, the Canadian state has been fairly stable, especially when viewed through a comparative lens. Even if largely accurate, this characterization glosses over the dynamics of Canadian federalism over the past century and a half. What was initially a fairly centralized state structure became increasingly decentralized. The devolution of power to the provinces continued until the Great Depression. During World War II, the pendulum swung back in

²⁰⁵ The list of nation-homogenizing projects includes the Holocaust, the Armenian genocide, the Turkish/Greek population exchanges, the Indian/Pakistani re-run, the Croatian puppet government's genocide against its Serbian population, and more recently the Rwandan genocide and the civil wars in the former Yugoslavia. Unfortunately, this is not an exhaustive catalogue of 20th century atrocities motivated by the homogenizing intentions of nationalist leaders.

²⁰⁶ Few Québécois nationalists would accept this characterization. For a recent systematic articulation of this position, see Jean-François Caron and Guy Laforest, "Canada and Multinational Federalism: From the Spirit of 1982 to Stephen Harper's Open Federalism," *Nationalism and Ethnic Politics* 15, no. 1 (2009): 27-55.

²⁰⁷ William G Ormsby, *The Emergence of the Federal Concept in Canada, 1839-1845* (Toronto: University of Toronto Press, 1969), 121.

the direction of greater concentration of power in Ottawa.²⁰⁸ This chapter explains why and how Quebec managed to carve out a significant degree of autonomy in the aftermath of World War II, with particular emphasis on the period between 1960 and 1984.

I will show that the relatively weaker economic position of Quebec in Canada, together with the statist strategy of governance adopted by successive governments in Ottawa, created permissive conditions for the accommodation of the only Canadian province with a Francophone majority. I argue that the moderately statist strategy of successive federal governments made accommodation feasible in circumstances where the funds for the expansion of state activity were to be found disproportionately in the Anglophone provinces of Ontario, British Columbia, and Alberta.²⁰⁹ In such circumstances, the federal government was able to expand Quebec's policy and fiscal autonomy without compromising its own ability to implement Canada-wide programs.

Yet, the unwillingness of Canada's most well-known Prime Minister, Pierre Elliot Trudeau, to treat Quebec as a province with special status led to a more symmetric form of decentralization during the 1970s.²¹⁰ Other provinces were granted increasing policy and fiscal autonomy up to the point at which devolution challenged the federal government's ability to establish Canada-wide standards for public policies. Consequently, the increasing symmetry in devolution of power placed a limit on the

²⁰⁸ Richard Simeon and Ian Robinson, *State, Society, and the Development of Canadian Federalism* (Toronto: University of Toronto Press, 1990), Ch. 8.

²⁰⁹ This is no longer the case. The per capita GDP of Ontario and British Columbia has in recent years dropped below the Canadian average; Quebec has made up much of the distance from the mean, while Alberta, Saskatchewan and Newfoundland place well above it, mostly thanks to resource wealth. Ben Eisen and Mark Milke, "The Real Have-Nots in Confederation: British Columbia, Alberta and Ontario," *Policy Options* 35, no. 5 (2010): 46-52; Dale Orr, "Canada: From Three 'Have' Provinces to Just One and a Half" (IHS Global Insight, August 8, 2007), <http://www.ihsglobalinsight.com/Perspective/PerspectiveDetail10206.htm>.

²¹⁰ Quebec's nationalist politicians have long demanded constitutional recognition of 'special status' for the province. In the nationalist discourse, Quebec is not just another province; rather, it is home to a separate nation – the Québécois. Paul-André Linteau et al., *Quebec Since 1930* (Toronto: Lorimer, 1991), 547.

extent of accommodation of Quebec as well. Thus, while the structural factors I am considering in this dissertation played a pivotal part in the character of accommodation of Quebec, institutional development and key leaders played an increasingly important role as well.

The present chapter is organized in the following way. First, I describe the Canadian political context, outlining some crucial historical trends and events related to the development of relations between Canada's Francophone and Anglophone elites. I then outline the independent and the dependent variables. Finally, I present the causal narrative which integrates my hypothesis with other variables, such as the role of leadership and institutions, in order to both provide a richer explanation of accommodative processes and outcomes, and assess more accurately the independent causal impact of the independent variables central to my explanation.

3.1. Historical Background

In Canada, as in most other multinational states, history plays a significant role in contemporary politics. As one would expect, each group has a radically different view of the common past.²¹¹ For Canadians of French origin²¹², the key historical event has been the conquest of New France by the British in 1760.²¹³ For Canadians of British origin, the

²¹¹ In fact, differing interpretations make one wonder if such a thing as common history really exists in multinational states.

²¹² In this dissertation, I will use terms such as French Canadian, Canadian of French origin, Francophone and Québécois as largely interchangeable. The term Québécois was not used as a national designation in the 19th century, but today is. Not all Francophones are of French origin. Many immigrants to Canada are Francophone, but have arrived from Africa and other parts of the world. All of the terms I will use refer to people who consider themselves to be members of a French-speaking nation in Canada, but separate from Canadians.

²¹³ Québécois nationalists tend to view the Conquest (note the capital letter) as the foundational moment in English-French relations. All subsequent events and developments in Québécois national development

founding of Canada in 1867 is the event of significance. The conquest of New France and the subsequent political, economic, and, ultimately, demographic, dominance of the Anglophone population has invariably coloured French Canadians' perception of both Canada and their place in it. Military defeat and subsequent humiliation contributed to the idea of 'la survivance', or the notion that the survival of national culture of Francophone Canadians, particularly those in Quebec, is continuously in question.²¹⁴

Historical developments provided ample fodder for French-Canadian mistrust. In the aftermath of the Rebellions of 1837, the British government commissioned a report about the events.²¹⁵ Lord Durham, the person in charge of the inquiry, concluded that the best way to ensure the future stability of the colony would be to assimilate the French Canadian population.²¹⁶ The institutional reforms following the Durham Report gradually resulted in a dysfunctional legislative union with consociational characteristics, ultimately leading to the increasing acceptance of the federal concept among the Anglophone elites.²¹⁷ The reversal of the Anglophone position paved the way for the

relate to this moment of national humiliation and subjugation. John Frederick Conway, *Debts to Pay: The Future of Federalism in Quebec*, 3rd ed. (Toronto: J. Lorimer, 2004), Ch. 2; Douglas V Verney, *Three Civilizations, Two Cultures, One State: Canada's Political Traditions* (Durham: Duke University Press, 1986), 180; Ramsay Cook, *Canada, Quebec, and the Uses of Nationalism* (Toronto: McClelland and Stewart, 1986), 50–51. However, this well-worn narrative of victimization is becoming less relevant to new generations of Quebecers. André Pratte, "Why are so many young Quebecers still sovereignist? It's cooler," *The Globe and Mail*, June 10, 2011, http://www.theglobeandmail.com/news/politics/why-are-so-many-young-quebecers-still-sovereignists-its-cooler/article2056812/?utm_medium=Feeds%3A%20RSS%2FAtom&utm_source=Politics&utm_content=2056812.

²¹⁴ François-Pierre Gingras and Neil Nevitte, "The Evolution of Quebec Nationalism," in *Quebec, State and Society*, ed. Alain Gagnon (Toronto: Methuen, 1984), 5.

²¹⁵ The rebellions, taking place first in Lower Canada in 1837 and then in Upper Canada the following year, continue to be a source of much controversy among historians. While there is little consensus about the meaning of the rebellions, or the rebels' intentions, most scholars agree that they ultimately gave rise to responsible government in Canada. For a succinct overview and literature review, see Allan Greer, "1837-38, Rebellion Reconsidered," *Canadian Historical Review* 76, no. 1 (1995): 1-18.

²¹⁶ John George Lambton Durham, *Lord Durham's Report: An Abridgement of Report on the Affairs of British North America* (Toronto: McClelland and Stewart, 1963); Kenneth McRoberts, *Misconceiving Canada: The Struggle for National Unity* (Toronto: Oxford University Press, 1997), 5–6.

²¹⁷ Ormsby, *The Emergence of the Federal Concept in Canada, 1839-1845*.

federal bargain in 1867. Nevertheless, the memory of the assimilationist Durham Report endured among Francophone Canadians as the embodiment of the perennial assimilationist threat emanating from English Canada.

Several key events in the first half of the twentieth century reinforced French Canadian suspicions of the federal political establishment. The conscription crises during both World Wars gave credence to the perception of coercive Anglo-Saxon rule over the Francophone population. The federal government enacted conscription in 1917, in order to ramp up Canada's participation in World War I. This development led to considerable opposition in Quebec, including mass demonstrations in August of 1917.²¹⁸ Hostility to conscription in the rest of Canada was not nearly as pervasive as it was in '*la belle province*.'²¹⁹

Yet another such crisis erupted when the federal government reneged on its promise not to resort to conscription during World War II. In the 1942 referendum that would have allowed the government to reverse its position, 71.2% of Quebec's population opposed the initiative, whereas in the rest of Canada 80% supported it.²²⁰ Conscription was finally implemented in 1944, but at some cost to the Liberal government. Both cases seemed to confirm Francophone fears that, despite having autonomy within Quebec, they would be outvoted and marginalized at the federal level on important policy decisions.²²¹

²¹⁸ Canada. Royal Commission on Dominion-Provincial Relations, *Report of the Royal Commission on Dominion-Provincial Relations* (Ottawa: J. O. Patenaude, I. S. O., printer to the King, 1940), 96.

²¹⁹ *Ibid.*, 96.

²²⁰ Linteau et al., *Quebec Since 1930*, 104.

²²¹ In addition to these galvanizing events, the slow but steady erosion of the status of French language outside of Quebec was yet another worrying sign to Francophones concerned with the status of their group within Canada. Rita Bienvenue, "Language Politics and Social Divisions in Manitoba," *American Review of Canadian Studies* 19, no. 2 (1989): 187-202.

Francophone mistrust of the Anglophone majority and the Canadian state was not universal. Nevertheless, it was sufficiently widespread to result in the election of nationalist governments in Quebec. Yet, before 1960, Québécois/French-Canadian nationalism was quite different from the form it would take during the Quiet Revolution of the 1960s. Traditional Francophone nationalism, which emerged in the aftermath of the revolutionary ferment of the late 1830s and endured for a century, was clerical and conservative. It was also fundamentally apolitical, emphasizing cultural aspects of the national question. Monière summarized its elements thus:

The ideas of liberation and independence were replaced by the idea of survival. The objective was not now to build an independent nation and a democratic state, but to rely on a French and Catholic provincial government for the preservation of faith, language, and traditional institutions. [...] With the clergy in the ascendant, Quebec withdrew into itself, and lay still under the domination of a conservative ideology whose main themes were anti-statism [...] the worship of agriculture and the French colonial past, the rejection of industrialization, progress, and all the modern freedoms; and finally, a messianic vision according to which French Canada, poor but chosen, was the vessel of a great moral and spiritual destiny, no less than the conversion of America.²²²

This nationalism was not the potent, modern force that would threaten the very foundations of the Canadian state in the 1970s and beyond. Still, the sense of grievance, rooted in a stock of collective memories, would provide a link tying traditional and modern nationalist projects. Indeed, the very same sense of cultural peril that was so central to traditional nationalism was used to boost the political appeal of the separatist Parti Québécois in the 1970s.²²³

The shift from traditional to modern French Canadian nationalism is usually attributed to a combination of factors, the foremost of which are the rapid

²²² Denis Monière, *Ideologies in Quebec: The Historical Development* (Toronto: University of Toronto Press, 1981), 288.

²²³ Cook, *Canada, Quebec, and the Uses of Nationalism*, 51.

industrialization of Quebec and the recentralization of the Canadian state during World War II.²²⁴ The wartime rise of the federal government reversed a long trend of devolution of power to the provinces. The Constitution Act of 1867, which established the Dominion of Canada, was a compromise between advocates of a legislative union, concentrated among the Anglophone political elites, and federalists who supported the institutional recognition of separate cultural identities.²²⁵ The latter were mostly concentrated in Lower Canada (now Quebec). The product of this compromise was a highly centralized federal state. The federal government retained residual powers, the power of disallowance of provincial legislation, stronger fiscal capacities than the provinces, and a number of other levers which enabled it to exert political control over the provincial governments.²²⁶

Nevertheless, the federal government gradually lost political ground, while the provinces grew stronger and more autonomous. The Judicial Committee of the Privy Council, a British institution, played a key role in interpreting the 1867 Constitution Act in favour of the provincial governments.²²⁷ The aforementioned powers conferred on the

²²⁴ For a good overview, see Behiels, *Prelude to Quebec's Quiet Revolution*.; William D Coleman, *The Independence Movement in Quebec, 1945-1980* (Toronto: University of Toronto Press, 1984); Alain Gagnon, ed., *Quebec, State and Society* (Toronto: Methuen, 1984).

²²⁵ Janet. Ajzenstat et al., eds., *Canada's Founding Debates* (Toronto: University of Toronto Press, 2003), Ch. 9; Peter H Russell, *Constitutional Odyssey: Can Canadians Become a Sovereign People?* (Toronto: University of Toronto Press, 1992), 18–19.

²²⁶ Peter W Hogg, *Constitutional Law of Canada*, 4th ed. (Scarborough: Thomson/Carswell, 2000), 116–17. Canada's first Prime Minister, John A. MacDonald, was a proponent of centralized federalism. His views on the issue were shaped by the American experience, which culminated in that country's civil war. For MacDonald, the reason behind American instability was obvious: excessive power and autonomy of the constituent states. G. P Browne, *Documents on the Confederation of British North America: A Compilation Based on Sir Joseph Pope's Confederation Documents Supplemented by Other Official Material* (Toronto: McClelland and Stewart, 1969), 94–95. MacDonald's views on the issue helped reinforce the centralist character of early federalism in Canada. However, Canada's first Prime Minister thought that the federal government should be dominant, he also believed that "the people of every [province] must feel that they are protected, and by no overstraining of central authority should such guarantees be overridden." *Ibid.*, 95.

²²⁷ A. C Cairns, "The Judicial Committee and its Critics," *Canadian Journal of Political Science* 4, no. 3 (1971): 301-345; Garth Stevenson, *Ex Uno Plures: Federal-Provincial Relations in Canada, 1867-1896* (Montreal: McGill-Queen's University Press, 1993), Ch. 11.

federal government gradually atrophied through disuse, and, though they remain in the constitution, political norms and practice have made them politically insignificant.²²⁸ The period of decentralization lasted approximately since the end of the first MacDonald government (1871) until the Great Depression and World War II.²²⁹ The convergence of Canada's rapid industrialization in the inter-war period, the Great Depression, and the political opportunity afforded to the federal government by World War II opened the path to recentralization of the Canadian federation.

The process of recentralization was paralleled by a shift from the limited state to a significantly more interventionist one. Canada's experience with interventionism predates its independence. The early activism of Canadian governments was limited in scope, however, being mostly confined to policies intended to foster the expansion of private enterprise. In an attempt to create a trans-continental economy, and weaken the pull of the American market, the Canadian government engaged in what Aitken has called "defensive expansionism."²³⁰ This strategy included a combination of high tariffs, railway construction, and a permissive immigration policy. It was expected that the railways would facilitate the exchange of Western agricultural goods for the industrial articles produced in Central Canada (Ontario and Quebec). The purpose of high tariffs was to protect nascent Canadian industries and to weaken the otherwise economically rational North-South link with the United States. Finally, new immigrants were to settle

²²⁸ Ronald G Landes, *The Canadian Polity: A Comparative Introduction*, 5th ed. (Scarborough: Prentice Hall Allyn and Bacon Canada, 1998), 78–79.

²²⁹ Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, Ch. 4.

²³⁰ Hugh G. J. Aitken, "Defensive Expansionism: The State and Economic Growth in Canada," in *The State and Economic Growth; Papers*, ed. Hugh G. J. Aitken (New York: Social Science Research Council, 1959), 98.

the sparsely populated West of the country and ensure the continuing development of commercial agriculture.²³¹

Though interventionist by the standards of its time, this was still a fairly limited state, especially compared to its mid-twentieth-century version. Welfare, for instance, was considered a private matter, to be addressed in the family sphere, rather than through government intervention.²³² It was only with the industrial take-off in Canada, and especially in the aftermath of the Great Depression and World War II, that there was a significant expansion of the state's role in society. Increased government activism was manifested in the explosive growth in both the bureaucratic apparatus and in government spending.²³³

The Great Depression was the critical juncture paving the way for the expansion of the state in Canada. Though it did not usher in the immediate adoption of Keynesian policies, the Depression gave rise to political pressures that compelled the federal government of R. B. Bennett to consider its own version of the New Deal in 1935. In the event, the Bennett government was defeated and its policy proposals scrapped until a later date.²³⁴ Yet, the profound and lasting economic crisis lent legitimacy to interventionist ideas among important contemporary and future policy-makers, people who would shape the character of the Canadian state during World War II and in its aftermath.²³⁵ World War II finally provided the federal government with the political

²³¹ Ibid., 98–99.

²³² Keith G Banting, *The Welfare State and Canadian Federalism*, 2nd ed. (Kingston: McGill-Queen's University Press, 1987), 47.

²³³ Ibid., 48; Lorraine Eden and Maureen Appel Molot, "Canada's National Policies: Reflections on 125 Years," *Canadian Public Policy* 19, no. 3 (1993): 235–37; Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, 47.

²³⁴ Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, 61.

²³⁵ J. L. Granatstein, *The Ottawa Men: The Civil Service Mandarins, 1935-1957* (Toronto: Oxford University Press, 1982).

opening needed to both significantly enhance its power vis-à-vis the provincial governments, and increase the presence of the state in society in general.

The growing role of the federal government, combined with the remarkable economic growth and prosperity of the first post-war decade, facilitated a shift in politics and ideology in Quebec as well. Between 1945 and 1960, Quebec's society and economy underwent a profound transformation. The province experienced high rates of economic growth, urbanization, and a general increase in prosperity.²³⁶ Quebec's industries absorbed increasing numbers of people, finally supplanting agriculture as the main source of employment for men.²³⁷ Yet, the fruits of this economic expansion were not shared equally. For instance, Quebec's traditional ethnic division of labour continued, with the local Anglophones constituting the business elite and their Francophone counterparts supplying cheap labour and filling clerical positions.²³⁸ Furthermore, Quebec itself, though certainly not a poor province, lagged behind Canada's industrial heartland in Ontario.

The transformation of the social and economic landscape in Quebec was not accompanied by corresponding political changes. During the 1940s and 1950s, the province was led by the conservative government of Union Nationale, headed by Premier Maurice Duplessis. Duplessis was the last political representative of the aforementioned traditional Québécois nationalism. He was a proponent of limited government and, in that sense, clung to an anachronistic vision of politics at a time when most other Western

²³⁶ Linteau et al., *Quebec Since 1930*, Chs. 16; 17; 20; 23.

²³⁷ John Alexander Dickinson, *A Short History of Quebec*, 3rd ed. (Montreal: McGill-Queen's University Press, 2003), 277.

²³⁸ More will be said on this issue below.

states were expanding public services.²³⁹ Consequently, he found support among the Francophone conservatives, the Catholic clergy, as well as the Anglophone business community. Opposing Duplessis was a young generation of modernizers, who would propel Quebec in a decisively different direction during the 1960s. These modernizers counted among their members both neo-nationalists such as André Laurendeau, and Francophone liberals, among whom was Canada's future Prime Minister, Pierre Elliott Trudeau.²⁴⁰

Neo-nationalists, whose ideas would inspire Quebec's Quiet Revolution,²⁴¹ argued that traditional nationalism, with its advocacy of limited government, was not in the long-term interest of the province's Francophone population. They accepted the social and economic modernization of Quebec's society as both inevitable and irreversible. At the same time, they thought that the impersonal forces of modernization, if unchecked, would lead to the loss of Francophone identity through gradual assimilation of workers into the Anglophone culture.²⁴² The neo-nationalists also critiqued the permanently subservient position of Francophones in Quebec's economy. They thought that the solution to both of these problems lay in an activist provincial government. According to André Laurendeau, any successful nationalist program would have to address the

²³⁹ Some scholars have challenged this interpretation of life in Quebec under Duplessis. Coleman, for instance, argues that post-war Duplessis governments had not been as anti-statist as is usually suggested. Coleman, *The Independence Movement in Quebec, 1945-1980*, 11.

²⁴⁰ Behiels, *Prelude to Quebec's Quiet Revolution*. Laurendeau, a journalist and a politician, was one of the key intellectuals behind Quebec's Quiet Revolution. He used his platform as the editor-in-chief of the influential Quebec daily, *Le Devoir*, in order to publicize the ideas of modern Québécois nationalism. Donald James. Horton, *André Laurendeau: French Canadian Nationalist, 1912-1968* (Toronto: Oxford University Press, 1992), Chs. 7-9.

²⁴¹ This is the label given to the sweeping political and social transformation of Quebec's society during the 1960s.

²⁴² Behiels, *Prelude to Quebec's Quiet Revolution*, 39-40.

practical and immediate concerns of the working class.²⁴³ This entailed the creation of modern social programs which would protect workers from the vagaries of the market. The national and the social elements were to be welded together if the government was to mobilize the population behind the nationalist cause. In addition, the neo-nationalists believed that the provincial government should be involved in the formation of large-scale public enterprises which would then provide managerial opportunities to upwardly mobile Francophones.²⁴⁴ Such opportunities did not exist in the private sector, in which Anglophones were dominant. While neo-nationalists struggled to transform Quebec from within, they were also concerned about the increasingly assertive federal government. After all, to the extent that Ottawa usurped provincial legislative and fiscal powers, it would prevent the transformation of the provincial state in Quebec, and ultimately undercut the neo-nationalist project.

On June 22, 1960, the Liberal Party of Quebec (PLQ) won the provincial election, ushering in a new era of politics in the province. The PLQ became the political vehicle for the neo-nationalist agenda, in part due to the presence of prominent neo-nationalists such as René Lévesque in Jean Lesage's cabinet.²⁴⁵ The Lesage government was both more statist than any of its predecessors, and as a consequence more assertive vis-à-vis the federal government. More specifically, the PLQ government demanded greater fiscal and policy autonomy for Quebec, as well as constitutional revisions that would preclude future recentralization of the federation. The rest of this chapter assesses and explains this

²⁴³ Ibid.

²⁴⁴ See the work of Albert Breton, for instance "The Economics of Nationalism," *Journal of Political Economy* 72, no. 4 (1964): 376-386.

²⁴⁵ Lévesque would later break with the PLQ and found the separatist Parti Québécois.

struggle for autonomy, beginning with the victory of the PLQ in 1960 and ending with the last Trudeau administration in 1984.

3.2. Political Economy of Canada (Independent Variables)

Relative Levels of Development

English Canada and Quebec

Like most multinational states, Canada is characterized by territorially uneven patterns of economic development. By the 1960s, three Anglophone provinces, Ontario, British Columbia, and Alberta, were the most economically advanced units in the federation. While Quebec was not the least developed part of Canada, it lagged behind the most developed provinces on several important indicators. The province's relative economic standing within Canada was mirrored by the economic disparities between Francophones and Anglophones within it, with the economic elite being overwhelmingly Anglophone.

Viewed from a nineteenth-century perspective, Quebec's status as an economic laggard seems difficult to fathom. In 1867, the year Canada was established, Montreal, rather than Toronto, was the business capital of Canada. For most of the nineteenth century, Canada's economy was based on exports of staple goods to the United Kingdom. Montreal, with its port facilities strategically located on the St. Lawrence waterway, became the linchpin of this economic system.²⁴⁶ In fact, in the first half of the nineteenth

²⁴⁶ R. T. Naylor, "The Rise and Fall of the Third Commercial Empire of the St. Lawrence," in *Capitalism and the National Question in Canada*, ed. Gary Teeple (Toronto: University of Toronto Press, 1972), 9. As Norrie and Owsram have noted, "by [the middle of the 19th century] Montreal was clearly the dominant city in British North America and would be the centre of industry and commerce well into the twentieth

century, Upper Canada, or today's Ontario, was supplying the staple products which helped Montreal develop as the commercial centre.²⁴⁷ Commerce drew finance in its wake, turning Montreal into Canada's banking hub.²⁴⁸ With the onset of industrialization in the late nineteenth century, Montreal and its surroundings developed further. However, as early as 1870, Ontario already produced 52% of Canada's, admittedly small, manufacturing output in terms of value. Quebec's share was only 35%.²⁴⁹ Nevertheless, at this point, industrialization in Canada was of a very limited scope and Montreal retained its economic pre-eminence.

As Canada's industrial growth accelerated in the aftermath of World War I, the country's centre of economic gravity gradually shifted to Southern Ontario.²⁵⁰ This change had its roots in another structural transformation: the reorientation of the Canadian economy away from the British and toward the American economic orbit. Canada's exports were increasingly sold on the American, rather than the British market.²⁵¹ Just as important, British portfolio flows were being supplanted by American direct investment. American corporations were establishing branch plants in Canada in order to bypass the tariff wall erected by the federal government as part and parcel of the first National Policy.²⁵² This trend only accelerated after World War II.²⁵³ In part due to its proximity to the American industrial heartland in Michigan and Ohio, Ontario tended

century." K. H Norrie and Doug Owrarn, *A History of the Canadian Economy* (Toronto: Harcourt Brace Jovanovich, Canada, 1991), 152.

²⁴⁷ *Ibid.*, 149.

²⁴⁸ *Ibid.*, 155.

²⁴⁹ *Ibid.*, 371–72.

²⁵⁰ McRoberts has argued that "Quebec's weaknesses can be best seen as a function of the weaknesses of what historically had been its core, Great Britain, and of the strengths of what has become Ontario's core, the United States." Kenneth McRoberts, "The Sources of Neo-nationalism in Quebec," in *Quebec Since 1945: Selected Readings*, ed. Michael D Behiels (Toronto: Copp Clark Pitman, 1987), 89.

²⁵¹ Norrie and Owrarn, *A History of the Canadian Economy*, 446–52.

²⁵² Naylor, "The Rise and Fall of the Third Commercial Empire of the St. Lawrence," 22–23.

²⁵³ Norrie and Owrarn, *A History of the Canadian Economy*, 580.

to receive more manufacturing investment, so that most foreign direct investment (FDI) in automotive industries, for instance, found its way to the largest Anglophone province.²⁵⁴ Thus, during the inter-war period, Montreal lost some of its lead as the financial and manufacturing centre of Canada, a trend that would continue throughout the twentieth century.²⁵⁵

World War II created the conditions for yet another spurt of Canadian industrial growth, but it also exacerbated the differences in regional economic development, with Ontario benefiting significantly more from wartime opportunities than Quebec.²⁵⁶ While central Canada as a whole benefited more from the war effort than did the other regions of the country, Ontario did much better than Quebec outside of Montreal.²⁵⁷ In fact, most of Quebec actually lost ground in terms of overall share of gross value of production.²⁵⁸ Industrial production geared to the war economy during this period put in place the foundations of Canada's post-war prosperity by establishing a heavy manufacturing base. However, the uneven patterns of development continued.

In 1958, on the eve of the Liberal victory in Quebec, Ontario was producing 51.7% of the total value added in Canada's economy, while containing approximately 34% of the country's population. Quebec's share was only 30%, with 29% of the population.²⁵⁹ Indeed, while Montreal seemed to keep pace with the developments in

²⁵⁴ Ibid., 458; McRoberts, "The Sources of Neo-nationalism in Quebec," 91.

²⁵⁵ Dickinson, *A Short History of Quebec*, 218.

²⁵⁶ Norrie and Owram show that Ontario had the highest increase the share of gross value of production of all provinces (3.32%) between 1938 and 1944, whereas Quebec had the second highest drop in the same share in the value of production, behind only Saskatchewan, at 2.52%. Norrie and Owram, *A History of the Canadian Economy*, 527.

²⁵⁷ Ibid., 526–27.

²⁵⁸ Ibid., 526–27.

²⁵⁹ William L Marr and Donald G Paterson, *Canada, an Economic History* (Toronto: Macmillan of Canada, 1980), 397. For population figures, see Statistics Canada at <http://www40.statcan.gc.ca/l01/cst01/demo62a-eng.htm>.

Ontario, most of the rest of Quebec was economically sluggish by comparison and was characterized by patterns of economic development similar to the most underdeveloped parts of Canada - the Maritime provinces.²⁶⁰

The preceding discussion does not suggest that English Canada is universally wealthy. Ontario, British Columbia, and, since the 1940s, Alberta, have all been in the ranks of the provinces outstripping the Canadian average on major indicators of economic development.²⁶¹ The other prairie provinces as well as most of the Maritimes have traditionally been the least developed parts of the federation. However, what is important from the perspective of the argument presented here is that the wealthiest units in the federation, which also contribute the most revenue to the federal government, happen to be Anglophone, rather than Francophone, provinces.

Crude statistical data between 1960 and 1984 show that the relative pattern of development described above continued beyond 1960. Throughout this period, Ontario contained approximately 35% of Canada's population and, together with the other wealthy Anglophone provinces, Alberta and British Columbia, more than half of the population of the country. Quebec, on the other hand, contained about 28 % of Canada's population in 1971.²⁶² The share of Canada's GDP produced in Quebec and Ontario has tended to decline over time. Still, Ontario has consistently contributed more to the Canadian total than its share in the country's population, with Quebec contributing slightly less.²⁶³

²⁶⁰ Ibid., 438.

²⁶¹ As already noted, this is no longer the case, since Ontario has recently become a 'have not' province, dropping below the Canadian average on GDP per capita.

²⁶² See Appendix A, Table 1.

²⁶³ See Appendix A, Table 2.

The per capita GDP figures tell much the same story.²⁶⁴ The Atlantic provinces scored below the Canadian average throughout the period. The situation in the prairie provinces was mixed, with Alberta ranking above the state-wide mean, Saskatchewan catching up to it in 1981, and Manitoba scoring at about 10% below the mean. At the outset of the 1980s, Ontario lost some of its primacy, but still maintained per capita GDP above the country's average. British Columbia managed to stay approximately 10% above the Canadian average by 1981. Quebec, on the other hand, was persistently below the mean. These statistics show that the most populous Anglophone provinces had the highest per capita GDP, with the less populous ones scoring well below the average. Yet, this rudimentary aggregate figure conceals the continued strength of Ontario's economy in manufacturing. Thus, in 1971, Ontario generated approximately 53% of all value added in the manufacturing sector, well above its weight in population and even its share in total GDP (approximately 40%).²⁶⁵

A very similar story is told by the unemployment figures. While the Atlantic provinces regularly experienced higher than average unemployment rates between 1960 and 1984, Ontario and Alberta usually scored well below the average. Quebec's unemployment rate was also higher than the Canadian mean.²⁶⁶ Quebec's industries during this time were far less dynamic than Ontario's. The province had a high concentration of companies in slow-growth and low productivity sectors, resulting in persistently higher average unemployment rates than those prevailing in Ontario.²⁶⁷ As a

²⁶⁴ See Appendix A, Table 3.

²⁶⁵ See Appendix A, Table 4.

²⁶⁶ See Appendix A, Table 5.

²⁶⁷ Marc Renaud, "Quebec's New Middle Class in Search of Social Hegemony: Causes and Political Consequences," in *Quebec Since 1945: Selected Readings*, ed. Michael D Behiels (Toronto: Copp Clark Pitman, 1987), 58.

result, socially redistributive policies, such as unemployment insurance, were also contributing to the territorial redistribution of wealth. Provinces with lower unemployment, such as Ontario and Alberta, were net fiscal contributors to regions with higher unemployment, including the Maritimes and Quebec.

Thus, between 1960 and 1984, the most populous Anglophone provinces were more economically developed than Quebec. Quebec, in turn, was not as economically stunted as the Maritime provinces which placed well behind the rest of the country on most of the aggregate economic indicators.²⁶⁸ What matters for the argument presented in this dissertation is that the federal government was able to rely more heavily on the fiscal resources derived from the majority-inhabited provinces. Despite the fact that some of these provinces, such as Alberta, have at times resisted the policies of the federal government, the largest Anglophone provinces have continued to financially underwrite the functioning of the Canadian state.

Economic inequalities within Quebec

The relative economic strength of English Canada, and particularly Ontario, is not the only economic issue of relevance for the argument presented herein. For the nationalist Québécois in the early 1960s, more important than Quebec's economic ranking in Canada was the relative economic position of Francophones in the province itself. Though the share of Anglophones in Quebec's total population had been declining since the mid-nineteenth century, the province's English speakers retained their dominant

²⁶⁸ One could also argue, as McRoberts does, that Quebec has been economically more developed than all Anglophone provinces with the exception of Ontario. McRoberts, "The Sources of Neo-nationalism in Quebec." However, even if we accept this assertion, what is more important (from the perspective of the argument presented here) is that the federal government has been able to rely disproportionately on the tax revenues of wealthier Anglophone provinces.

economic position well into the twentieth.²⁶⁹ A number of scholars have argued that Anglophone economic domination can be traced to the British conquest of Canada.²⁷⁰ McRoberts maintains that explicit policies of domination were not necessary in order to produce such an outcome. As the export market for Canadian staples shifted from France to the United Kingdom, it was to be expected that the Anglophone merchants would be better placed than their Francophone counterparts to benefit from the shift.²⁷¹ Whatever the reason, Montreal-based Anglophones were at the forefront of both the financial and commercial expansion of Canada in the late nineteenth and early twentieth centuries.

Industrialization of the inter-war years reinforced the existing ethnic division of labour. The social conditions and educational opportunities reflected and reinforced the economic divide. In practice, this meant that “the foreign group [i.e. the Anglophones] could itself fill the management and technical levels of industry with little conflict, for French Canadians provided only the semi-skilled and unskilled labour.”²⁷² Furthermore, large companies were owned either by Anglophone Canadians or, in many cases, Americans. Francophone-owned industry contributed only 15% of value added in the province, whereas English Canadian and American-owned businesses accounted for the remaining 85%.²⁷³ These statistics are particularly stark when one considers that Francophones comprised 80% of Quebec’s population.²⁷⁴

²⁶⁹ John Alexander Dickinson, “The English-speaking Minority of Quebec: A Historical Perspective,” *International Journal of the Sociology of Language* 185 (2007): 15; Coleman, *The Independence Movement in Quebec, 1945-1980*, 26.

²⁷⁰ Naylor, “The Rise and Fall of the Third Commercial Empire of the St. Lawrence,” 5; Dickinson, “The English-speaking Minority of Quebec,” 15; Coleman, *The Independence Movement in Quebec, 1945-1980*, 25.

²⁷¹ McRoberts, “The Sources of Neo-nationalism in Quebec,” 96.

²⁷² Renaud, “Quebec’s New Middle Class in Search of Social Hegemony: Causes and Political Consequences,” 56.

²⁷³ *Ibid.*, 57.

²⁷⁴ *Ibid.*, 57.

These trends and tendencies, already familiar to most Francophones, became known to the rest of Canada as a result of the work of the Royal Commission on Bilingualism and Biculturalism (henceforth the B&B Commission). The Commission, established by the Pearson government in 1963, produced a four-volume report in which it described and analyzed the state of affairs concerning the status of and relations between the major linguistic and cultural groups in Canada. Francophones in Canada in general, and in Quebec in particular, were found to be in an inferior economic position relative to both their Anglophone counterparts, as well as members of a number of other ethnic groups.

The report of the B&B Commission offered firm evidence that the income levels of French Canadians were lower than the Canadian average. In 1961, men of French origin were earning only 80% of the average income earned by Canadian men of British origin.²⁷⁵ In Quebec, Francophone male labourers were earning 91.7% of average provincial income, whereas their Anglophone counterparts were earning an astounding 140% of the same. (Op. cit., 18) In other words, even among labourers, Francophones fared far worse than Anglophones.²⁷⁶ Of the listed groups in the study, Québécois of French origin were earning on average less than members of any other group apart from Italian Canadians and First Nations.²⁷⁷ Under the assumption that a well-rounded education was a prerequisite for success in one's career, the B&B Commission also studied the patterns of educational attainment among different communities. It found that

²⁷⁵ Canada. Royal Commission on Bilingualism and Biculturalism, *Report of the Royal Commission on Bilingualism and Biculturalism, Volume 3A* (Ottawa: Queen's Printer, 1969), 17.

²⁷⁶ Robert Sweeny, "A Brief Sketch of the Economic History of English Quebec," in *The English of Quebec: From Majority to Minority Status*, ed. Gary Caldwell and Eric Waddell (Québec: Institut québécois de recherche sur la culture, 1982), 84–85.

²⁷⁷ Canada. Royal Commission on Bilingualism and Biculturalism, *Report of the Royal Commission on Bilingualism and Biculturalism, Volume 3A*, 23.

the Francophone Québécois placed behind their British-origin counterparts as well, with fewer years of schooling than most other groups.²⁷⁸

The B&B Report also demonstrated that Quebecers of British origin were better represented in the professional and managerial occupations than were the Francophones.²⁷⁹ On the other hand, Francophone Québécois were more likely to end up as craftsmen or production workers and labourers.²⁸⁰ Finally, the Report confirmed the long-standing suspicion that the ownership of industries in Quebec tended to privilege those of British origin. Anglophone Quebecers were more likely to own businesses in the more dynamic sectors, with a higher proportion of value-added, greater productivity and an orientation toward the broader Canadian or continental market. French-owned businesses were characterized by the opposite traits.²⁸¹

The B&B Report summarized the inferior economic position of Francophone Québécois thus:

By every statistical measurement which we used, Canadians of French origin are considerably lower on the socio-economic scale. They are not as well represented in the decision-making positions and in the ownership of industrial enterprises, and they do not have the same access to the fruits of modern technology. The positions they occupy are less prestigious and do not command as high incomes. [...] Quebec manufacturing firms owned by Francophones produce only 15 per cent of the provincial output.²⁸²

The economic weakness of Quebec relative to Ontario and other more populous Anglophone provinces was thus mirrored within the province itself by the inferior

²⁷⁸ Ibid., 28.

²⁷⁹ Ibid., 43.

²⁸⁰ Ibid., 43.

²⁸¹ Ibid., 53–60.

²⁸² Ibid., 61.

economic position of Francophones relative to Anglophones. Both of these facts contributed to the statist orientation of Quebec's neo-nationalists.²⁸³

Strategy of Governance

Canada employed a moderately statist strategy of governance between 1960 and 1984. This choice of policy paradigm was rooted largely in the experience of the Great Depression. While the federal government never consistently employed interventionist policy instruments, in the post-war period the role of the state in Canadian society greatly expanded. Successive federal governments implemented a number of social programs,²⁸⁴ engaged in the direct production of goods and services by establishing crown corporations in a variety of sectors,²⁸⁵ and enacted policies addressing regional inequalities.²⁸⁶ The upshot of this proliferation of government activities was a substantial increase in public spending.²⁸⁷ This trend was particularly pronounced during the time period under consideration here.

The Great Depression prompted Canadian political and intellectual elites to reconsider the role of the state in the economy. The traditional, minimalist, model of governance was proving inadequate for the task of managing an increasingly complex industrial economy and rapidly urbanizing society. Intellectuals who called for a greater

²⁸³ Behiels, *Prelude to Quebec's Quiet Revolution*.

²⁸⁴ Dennis Guest, *The Emergence of Social Security in Canada* (Vancouver: University of British Columbia Press, 1980).

²⁸⁵ Jeanne Kirk Laux and Maureen Appel Molot, *State Capitalism: Public Enterprise in Canada* (Ithaca: Cornell University Press, 1988).

²⁸⁶ Donald J. Savoie, *Regional Economic Development: Canada's Search for Solutions* (Toronto: University of Toronto Press, 1986).

²⁸⁷ Between the Great Depression and 1982, government spending in Canada increased from 19.2 to 47.4% of GDP. David Wolfe, "The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930-1982," in *Modern Canada, 1930-1980's*, ed. Michael S Cross and Gregory S Kealey (Toronto: McClelland and Stewart, 1984), 46.

role of the state in ensuring a functioning polity found that the Depression vindicated their previously less than popular views on the issue. Indeed, their influence on wartime and post-war policy was quite significant, as governments increasingly came to accept the need for political regulation of the market.²⁸⁸

Two documents played a particularly important role in setting the tone for the future strategy of governance in Canada. The first was the Rowell-Sirois Report, released in 1940, which suggested that the state, and particularly the federal government, would have to play a more active role in order to attenuate the worst excesses of capitalism. The Report argued that the federal government needed to assume the task of financing public pensions, unemployment insurance, and other areas of public policy in order to ensure that the needs of Canadian citizens were met regardless of their province or region of residence.²⁸⁹ The Commission also recommended that the federal government provide funds in order to enable provinces with weak fiscal capacity to provide public services at the same level as the Canadian average.²⁹⁰ The territorially redistributive mandate was central to these recommendations.

The other crucial document advocating an expanded role for the state in post-war Canada was the White Paper on Employment and Income (1945), in which the federal government stated its position on post-war economic strategy. The central strategic goal articulated in the White Paper was the maintenance of a “high and stable level of employment and income,” which would be achieved through deficit financing.²⁹¹ The

²⁸⁸ Doug Owram, *The Government Generation: Canadian Intellectuals and the State, 1900-1945* (Toronto: University of Toronto Press, 1986).

²⁸⁹ Canada. Royal Commission on Dominion-Provincial Relations, *Report of the Royal Commission on Dominion-Provincial Relations*, Book 2, 270.

²⁹⁰ *Ibid.*, 272.

²⁹¹ Canada, *Employment and Income with Special Reference to the Initial Period of Reconstruction* (Ottawa: E. Cloutier, printer to the King, 1945), 1.

following passage was the clearest expression of the intended shift to a more interventionist strategy of governance:

The broad proposals contained in this paper have for their object the maintenance of levels of employment and income greatly above those ruling before the war. These and other requirements will call for government expenditures and revenues at higher than pre-war levels. [...] The Government will be prepared, in periods when unemployment threatens, to incur the deficits and increases in the national debt resulting from its employment and income policy, whether that policy is best applied through increased expenditures or reduced taxation. In periods of buoyant employment and income, the budget plans will call for surpluses.²⁹²

This was a clearly Keynesian statement, committing the government to counter-cyclical fiscal policy.

Taken together, the two documents—addressing both regional and social inequalities—called for social and territorial redistribution on a broad scale. The motives of the Mackenzie King governments in considering such a course were complex.²⁹³ One contributing factor was the rise of organized labour and their political allies in the Co-operative Commonwealth Federation (CCF).²⁹⁴ Another was the aforementioned arrival in Ottawa of a number of technocrats who were strongly invested in the idea of an interventionist state in order to steer the complex capitalist economy more effectively.²⁹⁵ ²⁹⁶ However, as many observers have noted, successive Canadian governments were not consistent in their application of the Keynesian doctrine, especially in the first decade and a half following World War II.²⁹⁷ Gordon, for instance, shows that deficit financing

²⁹² Ibid., 21.

²⁹³ William Lyon Mackenzie King was a Liberal Prime Minister, first during the 1920s, and then from 1935 to 1948.

²⁹⁴ Guest, *The Emergence of Social Security in Canada*, 125.

²⁹⁵ On the role of Canadian technocrats, see Granatstein. Granatstein, *The Ottawa Men*.

²⁹⁶ Wolfe, “The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930-1982,” 53–54.

²⁹⁷ Indeed, the expansion of social programs was stalled since provincial agreement could not be obtained at the 1945 Conference on Reconstruction. Guest, *The Emergence of Social Security in Canada*, 140. In addition, the Mackenzie Liberals’ commitment to a comprehensive social policy was, as Guest notes, shallow. Ibid., 142. For a systematic overview of Canada’s experience with Keynesianism, see Robert

between 1945 and 1963 proceeded through a series of fits and starts from one minister of finance to another, exhibiting no consistent dedication to principles of counter-cyclical fiscal policy.²⁹⁸

While World War II saw a remarkable, though temporary, expansion of state activity, the most significant expansion of government programs took place during the 1960s under the Liberal government of Lester B. Pearson. Most of the major social policies that endure to this day were initiated and implemented during this decade. Pearson's government oversaw the implementation of the Canada (and Quebec) Pension Plan (1965), the Canada Assistance Plan²⁹⁹ (1966), and the Medical Care Act (1966), which greatly expanded access to health care to all Canadians.³⁰⁰ In addition to socially redistributive policies, the federal government also implemented programs of territorial redistribution, such as the fiscal equalization scheme, which was established in 1957.³⁰¹ The system of equalization included a formula that established the extent of fiscal support that the 'have-not' provinces would receive from the federal government. However politically important, these fiscal transfers were not large compared to other budgetary expenditures such as those related to health care and other social programs.³⁰²

The federal government periodically engaged in more direct attempts to manage the economy, especially through public ownership of companies in a variety of sectors.

Malcolm Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-1975* (Peterborough: Broadview Press, 1987).

²⁹⁸ H. Scott Gordon, "A Twenty Year Perspective: Some Reflections on the Keynesian Revolution in Canada," in *Canadian Economic Policy Since the War* (Montreal: The Associations, 1966).

²⁹⁹ The basis of Canada's social welfare policy until 1996.

³⁰⁰ Guest, *The Emergence of Social Security in Canada*, Ch. 10; Richard Simeon, *Federal-Provincial Diplomacy: The Making of Recent Policy in Canada: With a New Preface and Postscript* (Toronto: University of Toronto Press, 2006).

³⁰¹ Douglas H. Clark, "Canada's Equalization Program: In Principle and in Practice," in *Equalization: Its Contribution to Canada's Economic and Fiscal Progress*, ed. Robin Boadway and Paul Hobson (Kingston: John Deutsch Institute for the Study of Economic Policy, Queen's University, 1988), 84–86.

³⁰² In 1981, for instance, basic equalization revenue comprised a bit over 1% of Canada's GDP. *Ibid.*, 112, Table 1.

Public enterprises were also established at the provincial level. This trend toward greater government presence in the direct production of goods and services occurred mostly during the time period covered in this dissertation. As Laux and Molot note, 72% of all provincial corporations, and 58% of federal ones were established after 1960.³⁰³ By the late 1970s, federal public enterprises were a significant employer, as well as a source of income for the federal government.³⁰⁴ Nevertheless, Canada was never quite as interventionist in its industrial policy as was, for instance, France or some of the more dirigiste East Asian states.³⁰⁵ Trudeau's abortive attempt to engage in dirigiste ('vertical') industrial policy in the early 1980s was the last attempt of such kind in Canada.³⁰⁶

The foregoing summary suggests a steadily growing presence of the state in the Canadian economy and society. This trend is borne out by some crude quantitative indicators. The proportion of government spending in Canada exhibited a persistent upward trend between 1960 and 1984, from approximately 29 to 44% of GDP.³⁰⁷ Public spending continued to increase throughout the 1980s, until it reached its peak in 1992, at over 50% of Canada's GDP, in the midst of the global economic slowdown and a spike in unemployment rates.

In comparative perspective, Canada's strategy of governance during the period under study was only moderately statist. Its public spending figures were consistently lower than approximately two-thirds of OECD members, especially those we tend to

³⁰³ Laux and Molot, *State Capitalism*, 57.

³⁰⁴ John Langford and Kenneth Huffman, "The Uncharted Universe of Federal Public Corporations," in *Crown Corporations in Canada: The Calculus of Instrument Choice*, ed. Robert Prichard (Toronto: Butterworths, 1983), 297.

³⁰⁵ For an overview of literature on developmental states, see Woo-Cumings, *The Developmental State*.

³⁰⁶ Hale, *Uneasy Partnership*, 152–57. 'Vertical' industrial policy is targeted government intervention in the economy, usually associated with *dirigisme*. It has been contrasted with 'horizontal' industrial policy, the aim of which is to improve the quality of input factors for the entire economy. Buigues and Sekkat, *Industrial Policy in Europe, Japan and the USA*, 5–6.

³⁰⁷ See Appendix A, Chart

characterize as social democratic. Table 8 in Appendix A shows this comparison, and, following Esping-Anderson, divides the major OECD states into three groups, according to the type of welfare regime they implemented in the post-World War II period. According to Esping-Andersen's typology, Canada, together with the UK and the other British settler societies, is a liberal welfare regime.³⁰⁸ Yet, by the 1980s, Canada belonged to those liberal welfare states whose expenditures tended to make up half of their GDP, together with the UK and Ireland, outstripping both the US and Australia. Indeed, the spending gap between Canada and the US increased during the 1960s and 1970s, shrinking only during the 1990s, in the aftermath of the fiscal retrenchment implemented by the Liberal government of Jean Chrétien.³⁰⁹ Canada was also spending relatively more than half of the conservative welfare regimes, though falling several percentage points short of Italy, Germany, and France. Of course, it was spending significantly less than most social-democratic welfare regimes.

In light of all this, one can summarize Canadian governing strategy between 1960 and 1984 as moderately statist. It is important to note that the role of the state in the Canadian economy and society was increasing during this period. While Canada's federal leaders placed much emphasis on the economy's export orientation and often embraced American investment, they increasingly saw a place for the public enterprise in order to reduce Canada's dependence on its southern neighbour.³¹⁰ Moreover, starting with Prime Minister Pearson, Canadian leaders put in place a fairly extensive social security network,

³⁰⁸ Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990), 26–27.

³⁰⁹ J. Stephen Ferris and Stanley L. Winer, "Just How Much Bigger Is Government in Canada? A Comparative Analysis of the Size and Structure of the Public Sectors in Canada and the United States, 1929-2004," *Canadian Public Policy* 33, no. 2 (2007): 173-206.

³¹⁰ Neil Bradford, *Commissioning Ideas: Canadian National Policy Innovation in Comparative Perspective* (Toronto: Oxford University Press Canada, 1998), 85–90.

including income security, health care, and public education. I now turn to the degree to which Canadian federal government has accommodated Quebec's demands for autonomy between 1960 and the early 1980s.

3.3. Accommodation in Canada (Dependent Variable)

Quebec governments varied in the extent and intensity of their demands for autonomy during the time period under study. The Liberal government of Jean Lesage (1960-66) was more confrontational than its Liberal counterpart under Robert Bourassa (1970-76), while the separatist Parti Québécois (PQ - in power between 1976 and 1985) was in some ways more radical than any of its predecessors.³¹¹ Still, all of the above governments converged in their demand for more policy and fiscal autonomy for the province of Quebec, backed by the implicit or explicit threat of secession. In addition, all viewed Quebec as a nation, and regarded Canada as a bi-national polity. Policy and fiscal autonomy were particularly important for the Lesage Liberals and the Parti Québécois, since these two governments were dedicated to the state-led transformation of Quebec society. In each case, the provincial government needed significant fiscal and organizational resources, as well as legislative powers, with which to effect such a transformation. On occasion, the government of Quebec also demanded constitutional

³¹¹ For a general overview of strategies of all Quebec-based parties during this period, see McRoberts' pivotal contribution. Kenneth McRoberts, *Quebec: Social Change and Political Crisis*, 3rd ed. (Toronto, Ont: McClelland and Stewart, 1988). Thomson covers the Lesage years. Thomson, *Jean Lesage & the Quiet Revolution*. Fraser provides a journalistic, but very well researched account of the Parti Québécois governments. Graham Fraser, *René Lévesque & the Parti Québécois in Power*, 2nd ed. (Montreal: McGill-Queen's University Press, 2001).

reforms that would entrench provincial gains in fiscal and policy domains, and extend the recognition of special status for Quebec.³¹²

The government of Quebec was reasonably successful in carving out a significant amount of policy and fiscal autonomy, especially during the first half of the 1960s. Quebec obtained important concessions from the federal government by winning the right to opt out of a number of federal programs, while receiving fiscal compensation for the same. This forward march of provincial autonomy was largely arrested by the 1970s. By that point, however, the province was equipped with far more power than it had had only a decade before. On the other hand, Quebec's constitutional demands remained largely unfulfilled, though this was not always due to the federal government's hard-line approach.³¹³ The unilateral patriation of Canada's constitution in 1982 was only the most obvious of the many constitutional fiascos. It was preceded by the failure of the Victoria conference in 1972 and followed by consecutive failures of constitutional reform at Meech Lake (1990) and Charlottetown (1992).³¹⁴ Yet, given the high threshold for constitutional reform in Canada, involving multiple constitutional veto points, such lack of success is hardly surprising.³¹⁵ While the constitutional issue was an important one, it

³¹² Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, 204.

³¹³ For instance, the Victoria Charter contained provisions which would have satisfied most of Quebec's demands, including constitutional veto powers for Quebec. Premier Bourassa, however, escalated his demands, and when these were turned down by Trudeau, opted not to sign on, fearful of nationalist backlash in his home province. *Ibid.*, 207–08; Garth Stevenson, *Unfulfilled Union: Canadian Federalism and National Unity*, 5th ed. (Montréal: McGill-Queen's University Press, 2009), 245.

³¹⁴ There is an extensive literature on Canadian constitutional reforms, covering the period between 1970 and 1992. For an overview of major trends, see Edward McWhinney, *Quebec and the Constitution, 1960-1978* (Toronto: University of Toronto Press, 1979); Russell, *Constitutional Odyssey*. For Meech Lake accords, see Patrick Monahan, *Meech Lake: The Inside Story* (Toronto: University of Toronto Press, 1991); Michael D Behiels, ed., *The Meech Lake Primer: Conflicting Views of the 1987 Constitutional Accord* (Ottawa: University of Ottawa Press, 1989). For Charlottetown Accord, see Kenneth McRoberts and Patrick Monahan, eds., *The Charlottetown Accord, the Referendum, and the Future of Canada* (Toronto: University of Toronto Press, 1993).

³¹⁵ Michael Lusztig, "Constitutional Paralysis: Why Canadian Constitutional Initiatives Are Doomed to Fail," *Canadian Journal of Political Science* 27, no. 4 (1994): 747.

did not preclude significant devolution of policy and fiscal powers to the provincial level, a process that benefited Quebec in particular. This is why the failure of constitutional politics to accommodate Quebec is, strictly speaking, not indicative of low accommodative capacity of the state.³¹⁶ While Canada failed to accommodate Quebec in constitutional terms, the province received tangible policy benefits.

As I have noted in Chapter 2, territorial autonomy can be assessed on political, policy, and fiscal dimensions. Quebec has had formal political autonomy since the birth of the Canadian federation in 1867. The constitutional division of powers and the subsequent judicial decisions guaranteed the protection of the political autonomy of provinces.³¹⁷ This judicial guarantee was reinforced by the separation of the party systems between the federal and provincial levels.³¹⁸ For example, the Liberal Party of Quebec was never simply a mouthpiece of its federal counterpart, as the actions of Liberal governments of Quebec since Lesage have shown. The party-system bifurcation therefore reinforced the political independence of the two levels of government.

Thus, political autonomy was not a pressing problem for Quebec, though successive governments demanded stronger constitutional guarantees of autonomy as well as veto power over a number of issue areas at the federal level. On the other hand, policy and fiscal autonomy were critical issues for both the Lesage and the Lévesque administrations. As has already been shown, during World War II the federal government had centralized the federation through the use of its spending power, and had extended its

³¹⁶ In fact, constitutional concessions to minority nations should constitute an entirely different field of study, as they are subject to different political dynamics than policy and fiscal decentralization.

³¹⁷ Hogg, *Constitutional Law of Canada*, 104; 118–20.

³¹⁸ Simeon, *Federal-Provincial Diplomacy*, 31–35.

influence into policy areas which fell constitutionally under provincial jurisdiction.³¹⁹ Since the Liberal government of Jean Lesage needed these same policy levers and resources in order to effect the far-reaching social and economic change which was central to its programme, the government of Quebec came in conflict with the equally expansionist federal state.

The Quebec elites were “partially successful” in gaining greater control over a number of policy areas, and shoring up the provincial government’s fiscal capacity.³²⁰ This was true particularly under the Lesage government. Quebec enhanced its fiscal capacity during the early 1960s, when the federal government agreed to transfer tax points to provincial governments through a system of ‘tax abatements’. This meant that the federal government agreed to reduce federal personal and corporate income taxes, as well as succession duties, freeing the provincial governments to take up that tax space.³²¹ This development reversed the federal government’s fiscal gains, obtained through ‘tax rental’ agreements arrived at during the preceding two decades.³²² Ottawa could no longer set major tax rates unilaterally.³²³ Quebec was the only province to make use of this arrangement. The federal government reduced its income taxes on all Quebec residents by 16.5 percentage points. This tax room was then taken up by the provincial government. Thus, instead of receiving federal cash transfers in order to fund such

³¹⁹ Here is where the intimate link between policy, fiscal and political autonomy becomes clear. Different dimensions of autonomy are not akin to watertight compartments.

³²⁰ Coleman, *The Independence Movement in Quebec, 1945-1980*, 154.

³²¹ Simeon, *Federal-Provincial Diplomacy*; Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*.

³²² Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, 146–47.

³²³ *Ibid.*, 194–95.

programs as hospital care and social welfare, the Quebec provincial government was able to raise those funds itself.³²⁴

The result was an increase in fiscal autonomy for Quebec. While the federal government is able to alter its transfers to the provinces, it cannot recoup its tax points. The only way it could do this would be through increasing its own taxes by the equivalent amount, and overtaxing the population of Quebec.³²⁵ At the very least, this is certainly a politically risky prospect. The present summary suggests a smooth, linear, transfer of fiscal resources from the federal government to the provinces. However, as Simeon shows, the federal government decided to put a stop to further tax abatements by the second half of the 1960s.³²⁶ During the 1966 fiscal negotiations, Quebec benefited substantially from equalization funds, but it did not receive the additional tax room it had demanded.³²⁷

Equally important as greater access to fiscal resources was Quebec's right to opt out of a range of federally funded social programs.³²⁸ The federal government agreed to this outcome in 1964.³²⁹ Rather than co-implementing programs with the federal government, Quebec gained the right to implement its own variants of these programs. The federal government also granted the province additional tax points and cash

³²⁴ Department of Finance Government of Canada, "Alternative Payments for Standing Programs and the Quebec Abatement," federal transfers, n.d., <http://www.fin.gc.ca/fedprov/altpay-eng.asp>.

³²⁵ Gerard W. Boychuk, "Territorial Politics and the Development of Health Care in Canada, 1960-1984," in *Annual Meeting of the Canadian Political Science Association*, 2005, 13, fn. 13, <http://www.cpsa-acsp.ca/papers-2005/Boychuk.pdf>.

³²⁶ Simeon, *Federal-Provincial Diplomacy*, 76.

³²⁷ *Ibid.*, 262.

³²⁸ These included hospital insurance, vocational training, old age assistance, unemployment assistance and health grants. Stevenson, *Unfulfilled Union*, 164.

³²⁹ Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, 199; Stevenson, *Unfulfilled Union*, 164.

payments to facilitate policy implementation.³³⁰ The most striking demonstration of Quebec's policy autonomy was its successful bid to introduce a separate pension scheme, just as the federal government was establishing the countrywide Canada Pension Plan. The federal government agreed to Quebec's opting out, which paved the way for the establishment of Quebec Pension Plan.³³¹ Though other provinces gained the right to opt out as well, none did, much to the relief of the federal government.

Autonomy gains in the 1970s were far less impressive than those of the preceding decade. During the 1971 federal-provincial conference, the federal government rejected Quebec's demands for veto over future federal social security programs.³³² Instead, the Victoria Charter would have committed the federal government to consultation with provinces before implementing new policy initiatives.³³³ Because of this fundamental disagreement, the Conference did not result in a new agreement as the Liberal government of Robert Bourassa refused to endorse the federal proposals. The Parti Québécois government (first in power from 1976 to 1985) also made few advances in enhancing Quebec's policy autonomy, and was rather committed to co-decision making and co-funding with the federal government. It did so in a number of policy areas, including infrastructure, health, social spending, and municipal affairs. In each instance, the federal government provided a large proportion of funds through direct transfers, rather than ceding tax room to the government of Quebec.³³⁴

³³⁰ Stevenson, *Unfulfilled Union*, 164.

³³¹ Simeon, *Federal-Provincial Diplomacy*, 59.

³³² McRoberts, *Quebec*, 224.

³³³ Canada. Constitutional Conference, 1971, *Proceedings [of the seventh meeting] Victoria, B.C., June 14, 1971* (Ottawa: Information Canada, n.d.), 62.

³³⁴ McRoberts, *Quebec*, 294–95.

A pivotal advance for the PQ government, albeit one with few budgetary implications, concerned the issue of immigration. Through a bilateral agreement with the federal government, Quebec obtained the right to substantial control over immigration into the province.³³⁵ Québécois nationalists have long been wary of immigration into the province. Since immigrants have tended to assimilate into the Anglophone culture, immigration threatened to erode Francophone demographic dominance in the province, further exacerbating group insecurities.³³⁶ It is for this reason that control over the profile of immigrants entering Quebec was such an important political achievement for the PQ.³³⁷

The constitutional patriation of 1982 could be viewed as an attempt by the federal government to limit the political autonomy of provinces, and Quebec in particular. The constitutional entrenching of the Charter of Rights and Freedoms could have been interpreted as an attack on the collectivist aspirations of Québécois nationalists, most specifically because some in Quebec feared that the Charter could be used to challenge that province's language legislation.³³⁸ In the event, these challenges did materialize, but were partially neutralized by Quebec's use of the 'notwithstanding clause' integrated within the Charter.³³⁹ Ultimately, the constitutional patriation could be interpreted as either enhancing or reducing provincial autonomy. For Lévesque's Parti Québécois

³³⁵ Ibid., 295.

³³⁶ See, for instance, Lévesque's views on immigration. Fraser, *René Lévesque & the Parti Québécois in Power*, 41.

³³⁷ Immigration was one policy area that would help the government of Quebec ensure the Francophone character of the province. The other significant PQ initiative in this direction was Bill 101, which established French as the only official language of the province. Coleman, "From Bill 22 to Bill 101"; McRoberts, *Quebec*, 275–82.

³³⁸ Keith G Banting and Richard Simeon, eds., *And No One Cheered: Federalism, Democracy, and the Constitution Act* (Toronto: Methuen, 1983); Fraser, *René Lévesque & the Parti Québécois in Power*, 297.

³³⁹ Stevenson, *Unfulfilled Union*, 258. The Clause allows the federal Parliament or a provincial Legislature to enact a law that would override the relevant sections of the Charter. Hogg, *Constitutional Law of Canada*, 660.

government the constitution was not acceptable because it did not grant Quebec constitutional veto, nor the desired mode of opting out of federal programs.³⁴⁰ On the other hand, according to the new amending formula, the federal government could not regain powers it had already ceded, nor could it enhance its powers without securing the consent of all provinces concerned.³⁴¹ As I demonstrate in the next section, a particularly contentious issue surrounding patriation was the manner in which it was conducted, rather than the actual content of constitutional change.

In sum, Quebec has managed over time to significantly strengthen its autonomy on both fiscal and policy dimensions. Stephane Dion argued that

Given that the Quebec government intervenes in more sectors than the other nine provinces – with its public pension fund, its international role, its accepted autonomy in matters of taxation and immigration – it seems fair to conclude that Quebec is the most powerful second level government in all of the OECD countries.³⁴²

The increase in autonomy was particularly rapid and extensive in the first half of the 1960s. During the 1970s and early 1980s, Quebec made less progress in expanding its influence, though it did gain control over immigration policy, for instance. The reasons behind this trend are explained in the following section. However, despite some attempts at shoring up the power of the federal government, and despite the general deceleration of devolution during the 1970s, it must be noted that the federal government did not attempt to systematically reduce or reverse the gains already made by the provinces in general or

³⁴⁰ Fraser, *René Lévesque & the Parti Québécois in Power*, Ch. 17; Russell, *Constitutional Odyssey*, Ch. 8.

³⁴¹ Section 38.3 of the 1982 Constitution Act notes that “an amendment [by which the federal government, together with the two thirds of provinces containing at least 50% of the population, can reduce the powers of provinces] shall not have effect in a province the legislative assembly of which has expressed its dissent thereto by resolution supported by a majority of its members.” Hogg, *Constitutional Law of Canada*, 1141. As Stevenson notes, this is an unprecedented opt-out clause for provinces which limits the discretion not only of the federal government, but also of the majority of the constituent units acting together. Stevenson, *Unfulfilled Union*, 257.

³⁴² Stephane Dion, “Why Is Secession Difficult in Well-Established Democracies? Lessons from Quebec,” *British Journal of Political Science* 26, no. 2 (1996): 279.

Quebec in particular. As the foregoing discussion notes, even one of the most contentious federal initiatives, the patriation of Canada's constitution, actually enhanced provincial power over constitutional change.

Many Québécois analysts and politicians dispute the extent of Quebec's autonomy in Canadian federation. Claude Morin, for instance, has argued that the decentralization of the 1960s amounted to mere reassertion of provincial power over the policy areas already assigned to the provinces under the Constitution Act of 1867.³⁴³ Within the perspective of this dissertation, Morin's assertion is beside the point. What matters is that, regardless of the original constitutional mandate or the intent of Canada's "founding fathers", the central government did shore up its powers during World War II and that it subsequently decided to devolve some of those powers.³⁴⁴ The government of Quebec has been a particular beneficiary of this devolution, as well as the main driver of the process of decentralization.

Alain Gagnon provides a more intellectually potent critique of Canada's process of decentralization. Gagnon notes that the gains extracted by Quebec from the federal government are theoretically reversible, rather than constitutionally entrenched.³⁴⁵ Certainly, this is a valid concern, and one that has been voiced by many Québécois politicians since 1960. One wonders, however, which federal government would be willing to rattle the cage by reversing Quebec's policy gains, even if these were necessary

³⁴³ Claude Morin, *Quebec Versus Ottawa: The Struggle for Self-Government, 1960-72* (Toronto: University of Toronto Press, 1976), 70. Morin was one of the 'mandarins' of the Quiet Revolution. He was a speechwriter and advisor to Jean Lesage, and later the Minister of Intergovernmental Affairs in the Lévesque government.

³⁴⁴ Subsequent decentralization and the capacity of provinces to make use of devolved powers has varied over time. R. A. Young, Philippe Faucher, and André Blais, "The Concept of Province-Building: A Critique," *Canadian Journal of Political Science* 17, no. 4 (1984): 783-818.

³⁴⁵ Alain Gagnon, "Taking Stock of Asymmetrical Federalism in an Era of Exacerbated Centralization," in *Contemporary Canadian Federalism: Foundations, Traditions, Institutions*, ed. Alain Gagnon (Toronto: University of Toronto Press, 2009), 259.

in order to, say, place the fiscal house in order. In addition, Gagnon's critique implicitly accepts that Quebec has managed to gain a significant degree of autonomy from 1960 onward.³⁴⁶ When all is said and done, compared to a number of other multinational federations, Canada ranks high on the extent of decentralization and autonomy for its constituent units, particularly on the fiscal dimension.³⁴⁷ The following section provides a brief explanation of this outcome.

3.4. Explaining Canada's Accommodative Capacity

The *proximate* factor behind Quebec's accommodation was the politics of nationalism. The federal government of Lester B. Pearson (1963-1968) was concerned with the rising tide of nationalism among Quebec's Francophones and was attempting to contain this trend by accommodating some of Quebec's demands. The underlying, *structural* factor which allowed for a reasonably extensive degree of sustainable autonomy was the political economy of Canada - specifically the federal government's moderately statist strategy of governance, combined with the fact that the most economically developed parts of Canada were populated by the majority Anglophones, rather than the minority Francophones. As a result of this configuration, the increasing autonomy of Quebec did not fundamentally compromise the federal government's ability to implement its strategy of governance.

³⁴⁶ He was not the first person to note this. Even convinced nationalists, such as Jacques Parizeau, who would go on to become PQ's Minister of Finance, and then Lead the Parti Québécois itself during the 1990s, noted that during the early 1960s, a significant amount of spending power was transferred to the provinces. Thomson, *Jean Lesage & the Quiet Revolution*, 401.

³⁴⁷ Anwar Shah, ed., "Comparative Conclusions on Fiscal Federalism," in *The Practice of Fiscal Federalism: Comparative Perspectives* (Montréal: McGill-Queen's University Press, 2007), 372-73.

Both Pearson and Trudeau expanded the role of the state in Canadian society by implementing and expanding a number of programs, most notably in the sphere of social policy. The funds to do so came disproportionately from the most developed parts of Canada, Ontario in particular. Had Quebec, rather than Ontario, been the economic engine of Canada, the funds for the expansion of federal activity would have had to come from that province, resulting in one of two outcomes. Either the accommodation of Quebec would have been more circumscribed, with all the attendant implications for Canada's political stability, or the federal government would have had to moderate its strategy of governance, and thus risk losing popular support and compromising its vision. This section explains the impact of the combination of relative levels of development and the federal elites' strategy of governance on accommodative processes and outcomes. First, however, I consider the immediate political dynamics that prompted the federal government to consider accommodating Quebec's demands.

In 1963, both the government of Quebec and the federal government of Canada were committed to expanding the role of the public sector. While each government had its own reasons for doing so, they were largely in tune with the times. During the 1960s, governments in most industrialized states were expanding social protection for their citizens, for economic and political reasons alike.³⁴⁸ For Quebec's political elites, strengthening the provincial state was an issue of long-term national survival, rather than simply a means of creating a more equitable society.³⁴⁹ The government of Quebec was to become the instrument of national liberation, through the promotion of French

³⁴⁸ Christopher Pierson, *Beyond the Welfare State? The New Political Economy of Welfare*, 3rd ed. (University Park: The Pennsylvania State University Press, 2007), Ch. 4.

³⁴⁹ Behiels, *Prelude to Quebec's Quiet Revolution*; Coleman, *The Independence Movement in Quebec, 1945-1980*; Thomson, *Jean Lesage & the Quiet Revolution*.

language and culture, by facilitating upward social and economic mobility of Quebec's Francophone population, and through making the economy of the province less dependent on outsiders. The realization of these ambitions required control over policy areas in which the federal government had already established its presence. It also depended on sufficient fiscal resources, at a time when Ottawa had a distinct advantage over the provinces in terms of tax revenue.

The federal government, in turn, had similarly expansionist plans, especially under the Pearson administration. This was a new direction for the federal Liberals, and a result of a shift in the Canadian public opinion and increasingly effective competition from the Conservative Party, as well as the socialist Co-operative Commonwealth Federation.³⁵⁰ While Canada experienced unparalleled prosperity during the fifteen years following the end of World War II, the 'trickle-down' effect of this prosperity did not materialize for everyone. The Liberal Party was in power for twenty-two years, starting in 1935, and despite talking up the necessity for an expanding social state did not implement a full program of social reforms.

While the Liberal government's cautious approach to social policy was not necessarily the reason behind its defeat in the 1957 election, many inside and outside of the party interpreted it in this way.³⁵¹ Both the Conservatives and the CCF pressed the issue of social security during the 1957 election campaign. For instance, the Conservatives, who would end up winning the election that year, advocated the expansion of pension coverage.³⁵² The socialist CCF was, predictably, even more strident

³⁵⁰ The CCF would soon give way to the more moderate New Democratic Party.

³⁵¹ Penny Bryden, *Planners and Politicians: Liberal Politics and Social Policy, 1957-1968* (Montreal: McGill-Queen's University Press, 1997), Ch. 2.

³⁵² *Ibid.*, 19.

in its preference for a robust social policy. In the event, the Conservatives won the election, with a promise to enhance Canada's social security system. Even if the Conservative conversion to a more interventionist social policy was tactical, it was reflective of a shift in Canadian public opinion. As one Conservative parliamentarian observed, his party would have to respond to "the whole trend of society, [which is] unfortunately, directed to less self reliance and more dependence on government."³⁵³

The defeat forced members of the Liberal Party to reconsider their policy priorities. The party veterans favoured a continuation of economically liberal policies of the previous decade, even as they conceded that the Conservatives won in part by moving "to the left of the Liberals, identifying themselves with small business and the little man".³⁵⁴ However, a number of party activists took the public preference for enhanced social protection seriously. While retaining a philosophical predilection for individualism, they argued that the state should "act positively to equalize opportunity" for Canada's citizens.³⁵⁵ The shift toward a more interventionist stance was aimed at helping the Liberal Party regain power.³⁵⁶

The National Liberal Rally, held in January of 1961, resolved the dilemma between the proponents and opponents of government intervention in favour of the former. Under the influence of Tom Kent³⁵⁷ and Walter Gordon³⁵⁸, the rally produced

³⁵³ Ibid., 24.

³⁵⁴ Bryden cites Brooke Claxton, one of the long-standing veterans of the Liberal Party. Ibid., 30.

³⁵⁵ Ibid., 33.

³⁵⁶ Ibid., 34.

³⁵⁷ Tom Kent, formerly a journalist, would become Prime-minister Pearson's policy advisor. He was an advocate of 'social economy,' with emphasis on greater state involvement "not in production as such but in consumption – larger public expenditures on education, health, housing and other services." John English, *The Worldly Years: The Life of Lester Pearson: Volume II, 1949-1972* (Toronto: Vintage Books, 1992), 227.

³⁵⁸ Walter Gordon was a Toronto businessman who acted as Lester Pearson's liaison with Toronto's business community. He later became Pearson's first Minister of Finance.

resolutions which were a veritable laundry-list of social programs as well as economically nationalist initiatives:

The resolutions called for, among other things, health insurance, regional development funds, urban renewal, a national scholarship plan, greater unemployment assistance, pension reform, increased social investments, limits on foreign control of the Canadian economy, complete processing of raw materials in Canada, and a Canadian flag.³⁵⁹

The Party's leader, Lester B. Pearson, endorsed Kent's and Gordon's direction toward greater interventionism, even as some in the Party considered this to be a step too far to the left. Regardless, Pearson's Liberals won the 1962 election with a minority, and were supported by the newly formed New Democratic Party during their years in government.³⁶⁰ These years, it must be noted, were possibly the most activist in terms of expansion of government programs in Canada's history. Thus, internal reform, prompted by electoral competition, brought Canada's 'natural party of government' into the statist orbit.

Demands by the government of Quebec for greater autonomy therefore had direct bearing on federal government strategy. Lesage Liberals needed the very same policy tools and resources that the federal government was counting on to implement its programs. Yet, the federal government proved remarkably accommodating of Quebec's demands. The Pearson government included a number of people who were sympathetic to Quebec's autonomy and committed to equality among Anglophones and Francophones.³⁶¹ Equally important was the fact that Pearson himself was concerned with what was traditionally called the 'national unity' problem, or rather, the possibility

³⁵⁹ English, *The Worldly Years: The Life of Lester Pearson: Volume II, 1949-1972*, 221.

³⁶⁰ Pearson's Liberals governed as a legislative minority throughout his two mandates. Peter H Russell, "Learning to Live with Minority Parliaments," in *Parliamentary Democracy in Crisis*, ed. Peter H. Russell and Lorne Mitchell Sossin (Toronto: University of Toronto Press, 2009), 144.

³⁶¹ Thomson, *Jean Lesage & the Quiet Revolution*, 127.

of Québécois nationalism getting out of hand.³⁶² Though it would take a decade and a half for an openly nationalist and separatist party to come to power in Quebec, the independence movement was already developing by the time Pearson came to power.³⁶³ The Rassemblement pour l'indépendance nationale, for example, was founded in September of 1960.³⁶⁴ Federal political elites perceived this development as a menacing trend that needed to be addressed. Pearson and his team chose the accommodative route in the hope that they would help Jean Lesage, their Liberal counterpart in Quebec, contain the nationalist sentiment in that province.³⁶⁵

Lesage, however, was subject to increasing nationalist agitation within his own cabinet, primarily from René Lévesque. Lévesque was the public face of a group of ambitious Quebec politicians and technocrats committed to building a strong and interventionist provincial state.³⁶⁶ The political developments initiated by this group, and endorsed by Lesage himself, were raising expectations among the Québécois public and the intellectual elites.³⁶⁷ These factors taken together led the provincial government to become increasingly assertive in its dealings with Ottawa. Certainly, Québécois political elites wanted a welfare state, but one provided by the provincial, rather than the federal,

³⁶² English, *The Worldly Years: The Life of Lester Pearson: Volume II, 1949-1972*, 302.

³⁶³ Coleman, *The Independence Movement in Quebec, 1945-1980*, 217–22; McRoberts, *Quebec*, 156.

³⁶⁴ Coleman, *The Independence Movement in Quebec, 1945-1980*, 218. RIN's ideology was both independentist and social democratic.

³⁶⁵ Though Lesage's cabinet featured nationalists and future separatists like Lévesque, Lesage himself supported Quebec's autonomy and was a convinced federalist, rather than a separatist. He believed that the aspirations of the Québécois could be accomplished within a reformed federal system. Thomson, *Jean Lesage & the Quiet Revolution*.

³⁶⁶ Fraser, *René Lévesque & the Parti Québécois in Power*, Ch. 3; Thomson, *Jean Lesage & the Quiet Revolution*, Chs. 7; 9–12.

³⁶⁷ The PLQ initiated the nationalization of Hydro Quebec in 1962, after a snap election which was in effect a referendum on the issue of nationalization. The election was fought under the slogan 'maîtres chez nous', or 'masters in our own house', with strong nationalist overtones. Fraser, *René Lévesque & the Parti Québécois in Power*, 28.

government, and with Francophone characteristics.³⁶⁸ As already noted, they also intended to use the provincial government in order to address the existing ethnic division of labour, and to strengthen the Francophone influence in business and administration.

Lesage therefore demanded more tax revenue and the right for his government to formulate social and economic policies autonomously of the federal government. As Richard Simeon showed, representatives of the federal government were quite taken aback by the intensity and seriousness of Quebec's demands.³⁶⁹ Negotiations surrounding the Canada Pension Plan were the critical ground over which the battle for the autonomy of Quebec was waged. During a series of federal-provincial meetings in 1963 and 1964, the government of Quebec pressed for greater autonomy in a number of policy fields, demanding the right to opt out of federally-funded programs and asking for appropriate fiscal compensation to boot.³⁷⁰ When the federal government initiated work on a Canada-wide comprehensive pension plan, the Lesage government sprung into action and produced its own alternative ahead of the federal-provincial negotiations. While the federal politicians believed that Lesage's team might present problems in the formulation of Canada Pension Plan, they were clearly unprepared for a fully developed alternative that the government of Quebec ultimately presented at the conference in March of 1964.³⁷¹

For Quebec, the autonomous pension plan was attractive for a number of reasons. First, it would prevent the federal government's intrusion in this particular field of public

³⁶⁸ Keith Banting has noted that Quebec politicians were concerned with jurisdiction, rather than with the provision of programs. Banting, *The Welfare State and Canadian Federalism*, 140.

³⁶⁹ Simeon, *Federal-Provincial Diplomacy*.

³⁷⁰ *Ibid.*, 47–56. The logic behind the fiscal compensation mechanism was that if a province is not using a federal program, it should not be funding it through taxes collected on its territory.

³⁷¹ *Ibid.*, 55.

policy, and would therefore present the PLQ as a competent defender of Quebec's interests.³⁷² Second, the Quebec pension plan was actually more comprehensive than the plan the federal government had originally contemplated.³⁷³ Finally, the pension plan would funnel compulsory savings against which the Quebec government could borrow and finance spending in other policy areas.³⁷⁴ As the federal government considered its course of action, it became clear that if Ontario also opted out of the pension plan, the scheme would fall apart.³⁷⁵ At the end of the day, the federal government agreed to a Quebec opt-out and two separate pension plans were established.

While the fear of Québécois nationalism played a significant part in the federal government's willingness to accommodate Quebec's demands, it was the underlying conditions of Canada's political economy that made accommodation possible. The foregoing discussion of negotiations surrounding the Canada Pension Plan suggests that the federal government was particularly wary of Ontario's also opting out of the federal scheme. In such circumstances, the federal plan would have been all but impossible to undertake. Without Ontario, the federal plan would not have covered the majority of Canada's population. More importantly, without Ontario's participation, the federal plan would have been starved of funds. Yet, the participation of Quebec in the plan was not as critical. A parallel Quebec Pension Plan still made the federal scheme broadly feasible. The same was true of other programs subject to Quebec's opt-out. Canada's fiscally expansionist strategy of governance was, in other words, not fatally compromised by the

³⁷² Simeon shows that public pensions, discussed since 1962, did not make it to the top of Quebec government's agenda until the federal government made them a key plank of its own policy program in 1963. *Ibid.*, 45.

³⁷³ *Ibid.*, 46.

³⁷⁴ Simeon, *Federal-Provincial Diplomacy*; Thomson, *Jean Lesage & the Quiet Revolution*.

³⁷⁵ Ontario's Premier Robarts was far from an enthusiastic supporter of the Canada Pension Plan. He was supported in his scepticism by the private health insurance industry in Ontario. Simeon, *Federal-Provincial Diplomacy*.

withdrawal of Quebec's participation or resources. The major reason for this is that the federal government was able to rely on the English-speaking parts of Canada, most notably Ontario, but also Alberta and British Columbia, for the fiscal resources necessary to implement its major program initiatives.

To observers of Canadian politics, this point is likely so obvious as to be irrelevant. Its significance becomes apparent only in a comparative setting. Where the central government seeks to expand its activity, but the wealthiest areas are populated by members of minority nations, prospects for accommodation are much more limited than was the case in Canada. Had Quebec, rather than Ontario, been the economic engine of Canada, the federal government's programs would have depended to a much greater extent on the fiscal resources of the minority population.

As the Yugoslav case (Chapter 5) shows, tensions inhering in such a context render extensive accommodation of minority-inhabited regions much more difficult. The statist central government has nowhere else to turn for the bulk of its fiscal needs but to the region whose elites are least willing and likely to provide these resources. As a result, the process of accommodation becomes much more tenuous and the ultimate fate of the accommodative project uncertain. A statist central government with more developed minority regions faces two choices. Either it can limit the autonomy of the minority-inhabited regions or it can moderate its strategy of governance. Under the first scenario, governments of minority-inhabited areas would be likely to mobilize against central encroachments, leading to possibly destabilizing outcomes, such as mobilization for independence. The other alternative - moderating the statist thrust of central government policy - would have the potential to lead to more accommodative outcomes, but at the

expense of lower support for the central government among the majority population. However, a statist government with more developed majority regions, such as Canada's, is able to go further in accommodating the demands for autonomy by the minority regions without significantly compromising or modifying its strategy of governance.

In Canada's case, not only did the federal government manage to grant Quebec a significant degree of fiscal and policy autonomy. It has also continued to redistribute resources of wealthier areas to the less wealthy ones, including Quebec itself. Quebec has been the net beneficiary of federal fiscal transfers in the domain of social policy, as well as a net recipient of so-called equalization payments.³⁷⁶ In other words, Quebec has paid less per capita into federal social programs than it got out of them. By contrast, Ontario has tended to contribute more than it has received until 1977, past which point it nevertheless received significantly less than did Quebec.³⁷⁷ Alberta was a net contributor, both in absolute and relative terms, throughout the period between 1961 and 1985.

How extensive would Quebec's autonomy have been if Canada had been characterized by the same patterns of economic inequality but with a central government adopting a laissez-faire strategy of governance? As the analysis of Czechoslovakia (Chapter 4) shows, such conditions lead to a different type of conflict. Politicians in less developed regions of multinational states tend to agitate for statist solutions for their regions' backwardness. This was the case with Quebec during the 1960s and 1970s. A statist regional government, committed to high levels of public expenditure and

³⁷⁶ For a recent discussion of equalization payments in Canada, see Courchene. Thomas Courchene, "Intergovernmental Transfers and Canadian Values: Retrospect and Prospect," *Policy Options* 31, no. 5 (2010): 32-40.

³⁷⁷ Thomas Courchene, "Subnational Budgetary and Stabilization Policies in Canada and Australia," in *Fiscal Institutions and Fiscal Performance*, ed. James M Poterba and Jurgen von Hagen (Chicago: University of Chicago Press, 1999), 317; Robert L. Mansell, *Strength in Adversity: A Study of the Alberta Economy* (Edmonton: University of Alberta Press, 1990), Table A.1 & A.2.

governing a large proportion of the state's population, would likely compromise the federal government's plans to limit public spending and impose fiscal discipline. Where the policy priorities of the two levels of government are in such stark contradiction, it would be tempting for the central government to try limiting the policy autonomy of its regional counterpart. If anything, the less developed, minority-inhabited, region would be likely to demand a shift in the central strategy of governance, leading to further conflict over accommodation.³⁷⁸

The foregoing discussion suggests that the demands made by the government of Quebec in the first half of the 1960s were largely satisfied. However, the provincial government made few additional gains beyond this time period, particularly in terms of fiscal concessions and economic policy. During the 1970s, and into the early 1980s, the devolution of power to Quebec and the other provinces did not stop, but was certainly not as dramatic as during the 1960s. If the independent variables outlined in this dissertation allowed for the initial grant of autonomy to Quebec in the 1960s, why did things change during the following decade?

There are two major reasons behind this outcome, one endogenous to my argument, the other exogenous. The first is that one of the independent variables changed. Namely, with the economic crisis of the 1970s, the Canadian government, as many others in the Western world, faced recurring fiscal deficits and growing public debt.³⁷⁹ This did not result in a full-scale transition to laissez-faire policy but it did prompt the federal

³⁷⁸ This was the case in Czechoslovakia, but also in Belgium, where the political elites in the less developed Wallonia have long insisted on a more explicitly statist approach to governance at the central state level. Swenden and Jans, "Will It Stay or Will It Go?" 879.

³⁷⁹ Harvey Lazar, "Intergovernmental Fiscal Relations: Workhorse of the Federation," in *The Oxford Handbook of Canadian Politics*, ed. John C Courtney and David E Smith (New York: Oxford University Press, 2010), 120.

officials to become more conservative in their spending decisions. The federal government's commitment to a statist strategy of governance, in other words, was weakened. The second reason concerned the federal government's preference for a more symmetric devolution of power to the provinces. This shift away from asymmetric devolution of power was largely triggered by Prime Minister Trudeau's hostility toward 'special status' for Quebec. Symmetry exacerbated the fiscal problems of the central state, as fiscal power was devolved to all provinces, rather than just Quebec, making the sustained control of fiscal affairs increasingly more difficult.

The early 1970s brought with them a definitive end to Canada's post-war boom. Economic growth slowed down in the aftermath of the first oil shock in 1973, and both inflation and unemployment increased.³⁸⁰ While the government initially sought to counter these trends with expansionary monetary and fiscal policy, the move backfired. During the mid-1970s, the federal government began experimenting, though not in a sustained manner, with partial fiscal restraint. Certainly, the growing and persistent fiscal deficits resulted in the abandonment of the expansion of social programs.³⁸¹ Instead, the federal government started to look for ways to arrest the growth of expenditures related to the increasingly expensive social provisions.³⁸² One of the measures that actually increased provincial policy autonomy also reduced the increases in federal government spending on social programs. The Established Programs Financing (EPF) meant that federal transfers to provinces for health care and post-secondary education would no

³⁸⁰ Norrie and Owsam, *A History of the Canadian Economy*, 600–601.

³⁸¹ For example, the federal government never implemented the guaranteed annual income program. *Ibid.*, 607.

³⁸² *Ibid.*, 608; Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, 285.

longer be tied to provincial decisions.³⁸³ Federal government employed this program in order to stop the growth in social expenditures. As Simeon and Robinson note, these arrangements “represented an end of the commitment to an expanding welfare state on the part of both orders of government.”³⁸⁴ On the other hand, provinces were given a freer hand in deciding how the lump sum EPF would be spent.³⁸⁵

This qualitative change in the federal strategy of governance had implications for accommodative outcomes. As welfare state expansion was replaced with the concern about budget deficits and, more seriously, long term inflation and economic development, the federal government could no longer afford to devolve power further to Quebec, or to other provinces.³⁸⁶ During this period, federal politicians and bureaucrats argued that decentralization was undermining the coherence of the federal government’s economic policy. As Norrie and Owrap note, provinces could use their powers

[I]n ways that were consistent with their own economic objectives, even if these conflicted with central-government objectives. Any number of examples were cited. Federal-government counter-cyclical stabilization efforts could be thwarted by pro-cyclical provincial ones, especially given the increase in the share of spending and taxation accounted for by the provinces by this date.³⁸⁷

³⁸³ Until 1977, the federal government was committed to matching provincial spending initiatives dollar-for-dollar. This meant that federal expenditures on these items were determined by the provinces. The EPF formula shifted the logic of funding so that it would be increased in line with GNP growth. Simeon and Robinson, *State, Society, and the Development of Canadian Federalism*, 288.

³⁸⁴ *Ibid.*

³⁸⁵ *Ibid.*

³⁸⁶ Lamontagne provides a succinct overview of this transition during the early-to-mid 1970s. Maurice Lamontagne, *Business Cycles in Canada: The Postwar Experience and Policy Directions* (Toronto: J. Lorimer, 1984), 76–80. The summary provided in this section suggests that Canada’s federal government had a ready-made plan for the management of the economic crisis. Nothing could be farther from the truth. Policy-making during the mid-1970s proceeded through a series of fits and starts, through a slew of contradictory and often unsuccessful measures. These measures also met much political resistance, both within and without the federal government and the administrative apparatus. The point, however, is that while there was no fundamental shift in policy-priorities, there was a partial conversion towards greater fiscal restraint. For a brief overview, see Norman C. Thomas, “Adapting Policy-Making Machinery to Fiscal Stress: Canada, Great Britain, and the United States,” in *Economic Decline and Political Change: Canada, Great Britain, the United States*, ed. Harold D Clarke, Marianne C Stewart, and Gary Zuk (Pittsburgh: University of Pittsburgh Press, 1989), 30–35.

³⁸⁷ Norrie and Owrap, *A History of the Canadian Economy*, 610.

This is exactly the argument which I develop in the next chapter. If a central government embraces a laissez-faire strategy of governance, with the appropriate dedication to macroeconomic stability, then a statist province would present a problem for the central government's ability to implement the chosen strategy. As it happened, Trudeau's governments were not fully committed to the scaling back of public spending, but rather to a reduction in the rate of growth. Nevertheless, as I had shown above, this development had resulted in attempts to limit provincial autonomy in a number of fields.³⁸⁸

The other problem, already implicit in the foregoing discussion, was that the decentralization of the 1960s was increasingly generalized to provinces other than Quebec. The person most responsible for this shift from Pearson's asymmetric federalism toward a more symmetric form of multi-level governance was Prime Minister Trudeau.³⁸⁹ Pierre Elliot Trudeau came to power in the 1968 election in part as a result of his tough stance on Québécois nationalism.³⁹⁰ While he was a proponent of dual federalism, with strong federal and provincial governments, he dismissed the idea of special status, or asymmetric autonomy, for Quebec. When asked by journalists about his stand on asymmetry, he called it a 'gigantic practical joke.'³⁹¹ He was therefore committed to a Canada in which all provinces were treated in the same way.³⁹²

³⁸⁸ As McRoberts has shown, few of these attempts by the federal government were successful. Kenneth McRoberts, "Unilateralism, Bilateralism and Multilateralism: Approaches to Canadian Federalism," in *Intergovernmental Relations*, ed. Richard Simeon (Toronto: University of Toronto Press, 1985), 102.

³⁸⁹ In this sense, Trudeau stood out as an exception among Canadian prime ministers since Pearson, with the exception of Jean Chretien.

³⁹⁰ Stephen Clarkson and Christina McCall, *Trudeau and Our Times. Volume 1: The Magnificent Obsession* (Toronto: McClelland & Stewart, 1990), 103–115.

³⁹¹ *Ibid.*, 106.

³⁹² Trudeau stated in 1966 that "Federalism cannot work unless all the provinces are in basically the same relation to the central government." McRoberts, *Misconceiving Canada*, 65.

The upshot of Trudeau's preference for a more symmetric federal system was the extension and generalization of some of the trappings of autonomy from Quebec to all other provinces. One of the most prominent examples of this was the aforementioned Established Programs Financing, whereby the federal government exchanged its ability to influence health and post-secondary education policies for greater control over its finances. Such generalization of policy autonomy across the board undercut the federal government's ability to ensure the implementation of its strategy of governance at that time. It was therefore not surprising that, during the last Trudeau administration (1980-1984), the federal government increasingly strove to limit provincial autonomy in a number of areas in which they were losing influence.

One of the few such initiatives that were successful was the establishment of the Canada Health Act (CHA). The CHA was devised in order to prevent provincial governments from introducing extra billing and user fees in health care.³⁹³ The Act imposed five conditions concerning the implementation of medical services provided to the citizens of Canada. Provinces had to comply or risk losing a portion of their funds.³⁹⁴ Quebec led the opposition to this initiative as well as to most other cases of alleged federal incursion into provincial areas of jurisdiction.³⁹⁵

Therefore, the insistence on symmetric devolution of power, devised in order to deny Quebec de facto, if not de jure, special status, compromised the federal government's ability to implement its strategy of governance in Canada outside

³⁹³ McRoberts, "Unilateralism, Bilateralism and Multilateralism: Approaches to Canadian Federalism," 100; Stevenson, *Unfulfilled Union*.

³⁹⁴ Stevenson, *Unfulfilled Union*, 171-72.

³⁹⁵ McRoberts, "Unilateralism, Bilateralism and Multilateralism: Approaches to Canadian Federalism."

Quebec.³⁹⁶ The direct result of this policy was the federal government's increasing inability to extend further accommodation to Quebec. Had the federal government accepted and institutionalized special status for Quebec, it would have been able to accommodate it without necessarily compromising its ability to implement policies in the rest of Canada. Yet, despite these mostly unsuccessful attempts to reverse provincial autonomy, the federal government did not engage in a concerted effort to undercut Quebec's gains made during the previous two decades.

No account of accommodation of Quebec would be complete without considering the constitutional patriation of 1982, particularly because some have interpreted it as an assault on Quebec's autonomy.³⁹⁷ Constitutional reform, including constitutional patriation, was on the agenda of both the government of Quebec and the federal government in the 1960s, though the former had higher stakes in the process of constitutional change.³⁹⁸ For Quebec, the most important constitutional issues were the formal recognition of special status for the province and veto powers over constitutional change. Every round of constitutional negotiations before 1982 failed to produce a decisive outcome.

At the turn of the decade, however, the stakes got higher, in part because of the 1980 referendum on sovereignty-association in Quebec. The sovereigntists lost the referendum, following which Trudeau pushed through with his constitutional patriation initiative. After months of negotiations had resulted in an impasse between the federal and provincial governments, the Prime Minister threatened unilateral patriation. The

³⁹⁶ McRoberts, *Misconceiving Canada*, 142.

³⁹⁷ See chapters in Part 2 of Banting and Simeon. Banting and Simeon, *And No One Cheered*.

³⁹⁸ For a thorough overview of Canadian constitutional reform debates, see Russell, *Constitutional Odyssey*, as well as Banting and Simeon, *And No One Cheered*.

provinces mounted partially successful legal challenges to such threats, prompting the federal government to refer the decision to the Supreme Court of Canada.³⁹⁹ The Supreme Court judged that provincial consent was not a legal requirement for patriating the constitution, but that “substantial provincial consent” to it would be a matter of “constitutional convention”⁴⁰⁰ In other words, constitutional patriation without provincial say-so was legal, but not legitimate.

Negotiations between the provinces and the federal government continued, but now the latter believed that it was much strengthened.⁴⁰¹ The accord that was ultimately reached between the two sides excluded Quebec. While the final agreement included Levesque’s demand for constitutionally guaranteed provincial opt-outs out of new federal programs, it did not provide for financial compensation in such cases.⁴⁰² As Levesque had given up on the Quebec veto in exchange for fiscal compensation in earlier versions of the deal, he understandably felt betrayed by the other provincial premiers.⁴⁰³ The deal was therefore reached between the federal government and the premiers of all provinces except Quebec. Levesque refused to sign on.⁴⁰⁴ Long after it was consummated, the agreement would be referred to in Quebec as ‘the night of the long knives’.⁴⁰⁵

³⁹⁹ Keith Banting and Richard Simeon, “Federalism, Democracy and the Constitution,” in *And No One Cheered: Federalism, Democracy, and the Constitution Act*, ed. Keith G Banting and Richard Simeon (Toronto: Methuen, 1983), 5–8; Russell, *Constitutional Odyssey*, Ch. 8.

⁴⁰⁰ Russell, *Constitutional Odyssey*, 119.

⁴⁰¹ For a detailed account of the negotiations, see Fraser, *René Lévesque & the Parti Québécois in Power*, Ch. 17.

⁴⁰² Russell, *Constitutional Odyssey*, 120.

⁴⁰³ Subsequently, fiscal compensation for culture and education was reintroduced, and Quebec was allowed to exempt English-speaking immigrants from language rights under the newly adopted Charter of Rights and Freedoms. *Ibid.*, 122; Stevenson, *Unfulfilled Union*, 256.

⁴⁰⁴ Fraser, *René Lévesque & the Parti Québécois in Power*, 297.

⁴⁰⁵ Russell, *Constitutional Odyssey*, 119.

Did the constitutional patriation reduce the autonomy of Quebec, or that of the other provinces? The issue was hotly debated for years after.⁴⁰⁶ Certainly, Quebec did not obtain veto over constitutional change, but neither did it possess one previously. But all provinces, Quebec included, gained the constitutionally entrenched right to opt out of new federal programs, and by the same mechanism, won the right to resist federal encroachments on powers already transferred to provinces.⁴⁰⁷ While Canada's federal units did not gain the right to fiscal compensation for social programs (only education and culture are included in the constitution for this purpose), as Fraser noted, "it would be politically difficult to penalize Quebec for opting out."⁴⁰⁸ The use of the notwithstanding clause enabled Quebec to resist federal challenges to French language laws on the basis of individual right of choice.

More politically contentious than the content of the new constitution was the manner in which it was promulgated. Quebec was the only province that did not accede to the new document, making its legitimacy at best questionable in that province. While the reaction of the political classes in Quebec was strongly negative, widespread public protest failed to materialize.⁴⁰⁹ It would be the failure of subsequent attempts at 'bringing Quebec into the constitution' that would prove more politically combustible and bring Quebec to within several thousand votes from secession in the 1995 referendum. Nevertheless, the political preferences of Prime Minister Trudeau, including his embrace of the notion of symmetric federalism, precluded more accommodative outcomes than

⁴⁰⁶ For a range of mostly critical views, see Banting and Simeon, *And No One Cheered*. Stevenson believes that the claim of reduced autonomy was exaggerated. Stevenson, *Unfulfilled Union*, Ch. 10.

⁴⁰⁷ *Ibid.*, 257.

⁴⁰⁸ Fraser, *René Lévesque & the Parti Québécois in Power*, 298.

⁴⁰⁹ Russell, *Constitutional Odyssey*, 129.

ones that might have occurred under a more accommodationist head of government.

3.5. Conclusion

In February of 2010, Alberta's Minister of Finance, revolted by what he perceived as his province's unfair treatment by federal and other provincial governments, declared he would tour the province's university campuses telling the students that they and their families "are spending a bunch of money to help Quebec, and [students in that province] are paying half the tuition you are."⁴¹⁰ The suggestion that English Canada is subsidizing Quebec, though a crude oversimplification, speaks to an important point made in this chapter. During the time period covered, English Canada was in a position to afford such subsidies.⁴¹¹ More importantly, the federal government was able to rely on the resources of the richer Anglophone (i.e. majority-inhabited) provinces in order to finance its strategy of governance. This strategy included the expansion of social programs in fields such as health care, welfare, and education. As a result, it was able to accommodate Quebec's early demands for policy and fiscal autonomy to a substantial degree. The significance of political economy in accommodative outcomes will become more salient in the following chapters, which discuss cases that differ from Canada either in terms of the central elites' strategy of governance or in terms of the geographic and ethnic distribution of wealth.

⁴¹⁰ Andrew Chung, "Quebec: A Poor Little Rich Province," *The Toronto Star*, March 20, 2010, sec. News, <http://www.thestar.com/news/canada/article/782673--Quebec-a-poor-little-rich-province>.

⁴¹¹ This pattern has in the meantime shifted, with Ontario's relative position deteriorating, and Alberta's improving significantly. Albertan resentment challenges the simplifying assumption presented in this dissertation that the 'majority' ethnic group is always and necessarily politically homogeneous. In other words, important regional cleavages within the majority group complicate the accommodative dynamics in multinational states.

During the 1970s and 1980s, further devolution of power to the province of Quebec was largely arrested. This chapter has suggested that there were two primary factors behind this development. First, the economic crisis of the 1970s caused a partial reversal in the federal government's strategy of governance. Its commitment to social justice and social and regional equality was tempered by a concern about inflation and long-term economic growth. The second, and related, factor was the federal government's increasing insistence on greater federal symmetry. Prime Minister Trudeau insisted on equalizing autonomy across all provinces, in an effort to deny Quebec either *de facto* or *de jure* special status. The push toward greater symmetry in federal relations, both in terms of policy and fiscal decentralization, increasingly deprived the federal government of both the legislative and fiscal leverage over the direction of policy, a process which coincided with the economic slowdown of the 1970s.⁴¹² An asymmetric process of decentralization would not have compromised the federal government's policy-making ability to the same extent.⁴¹³ The issue of asymmetry is a critical one for the accommodative capacity of governments in multinational states, particularly where the state is comprised of more than two constituent units. The same question has been present in Spanish inter-governmental relations. It will therefore be discussed again in Chapter 6.

This chapter demonstrates the importance of the state's political economy as a permissive factor in facilitating the accommodation of Quebec between 1960 and 1984. However, the ultimate test of the hypotheses presented in this dissertation is how

⁴¹² Stevenson, *Unfulfilled Union*, 167.

⁴¹³ For a recent discussion of asymmetrical federalism in multinational federations, see John McGarry, "Asymmetry in Federations, Federacies and Unitary States," *Ethnopolitics: Formerly Global Review of Ethnopolitics* 6, no. 1 (2007): 105.

Canada's decentralization would have proceeded in case the two main structural variables (i.e. the relative levels of development and/or the federal government's strategy of governance) assumed different values. The following chapter explains the accommodative capacity of Czechoslovakia, the state with a similar ethnic division of labour to Canada's (relatively more developed majority) but a different strategy of governance.

CHAPTER 4: Czechoslovakia

The fall of communism in 1989 reopened Czechoslovakia's national question, dormant since the 1968 federal reforms of the state. After the initial euphoria caused by the regime's implosion wore off, Slovak leaders began advocating institutional reforms that would have placed the relations between the two constituent nations on what they argued was equal footing. Over the next two years, Slovak representatives demanded the entrenchment of their republic's political, policy, and fiscal autonomy. Yet, unlike in Canada, the central government proved to be far more hostile to the idea of extensive autonomy for the Slovak half of the federation. As a result, federal elites exerted increasing pressure on the autonomy Slovakia had already managed to acquire and refused to accommodate demands for more powers.

In this chapter, I argue that a critical factor behind this outcome was the political economy of Czechoslovakia. The federal government, together with the government of the Czech Republic, embraced a radically laissez-faire strategy of governance. Yet the economic reforms benefited the wealthier, majority-inhabited Czech Republic far more than they did Slovakia. Consequently, the Slovak political elites demanded a more moderate economic strategy. They also pressed for increased policy and fiscal autonomy which would have enabled them to implement such a strategy in their federal unit. Federal political elites, and their counterparts in the Czech Republic, believed that satisfying Slovak demands would compromise the laissez-faire model of governance to which they were so strongly dedicated.

The institutional framework inherited from the communist period, however, prevented the federal government from scaling back the powers that the Slovak Republic

already possessed. Namely, Czechoslovakia's 1968 constitutional amendments, still in force after 1989, put in place a confederal decision-making mechanism. Legislative representatives of each republic wielded veto power over central government legislation. As a result, the preferences of the federal government could not be actualized to the extent to which the federal leaders might have desired. In fact, Slovakia achieved a level of autonomy that was believed to be excessive by a number of Czech observers. Furthermore, the confederal features of Czechoslovakia, combined with the fundamentally incompatible political and economic goals of the Czech and Slovak elites, contributed to the country's breakup.

The presentation of the Czechoslovak case follows roughly the same format as the previous chapter. The first section outlines the historical background to the national question in Czechoslovakia. The rest of the chapter contains the analytical sections, explaining the accommodative capacity of Czechoslovakia.

4.1. Historical Background

Czechoslovakia was established in 1918, in the immediate aftermath of World War I. To note that the new state was an artificial creation, as some have done in order to explain its rocky history, is meaningless.⁴¹⁴ *All states* are artificial creations, and very few have been brought into existence through anything approaching a plebiscite.⁴¹⁵ While great powers did play a vital role in Czechoslovakia's birth, Czech and Slovak

⁴¹⁴ Even Carol Leff, in her otherwise excellent book, writes 'Czechoslovakia shared with other new East European states a tempered artificiality.' Leff, *National Conflict in Czechoslovakia*, 11.

⁴¹⁵ Franke Wilmer, *The Social Construction of Man, the State, and War: Identity, Conflict, and Violence in Former Yugoslavia* (New York: Routledge, 2002), 85.

populations also shared a number of significant cultural and linguistic traits.⁴¹⁶ Furthermore, by the end of the Great War, there was considerable agreement among Czech and Slovak political activists at home and abroad about the desirability of the common state.

Still, the populations of the Czech and Slovak lands had experienced separate political histories, which facilitated the construction of diverging national narratives and identities. While both parts of what would become Czechoslovakia were ruled by the Habsburg dynasty for almost five centuries, they were nevertheless subject to different political systems. The Czech territories enjoyed separate status as the Lands of the Bohemian Crown, whereas Slovak territory was ruled directly by the Hungarian Crown, without distinct legal status or separate political and administrative institutions.⁴¹⁷

It is therefore not surprising that the arrival of nationalist ideas to the Czech-Slovak lands resulted in the emergence of two nations. The Czech and Slovak nations were born in the context of national mobilization of the two largest ethnic groups in the Habsburg Monarchy: Germans and Hungarians.⁴¹⁸ The Czech ‘national revival’ was a reaction to pan-Germanic ideas in the Austrian half of the Monarchy.⁴¹⁹ In the Compromise (*Ausgleich*) of 1867, the Habsburg Monarchy was transformed into a quasi-

⁴¹⁶ In addition, as Krejčí observes, Czechs and Slovaks were not divided by religion. He also notes the obvious differences in socio-economic development between the regions inhabited by the two nations. These differences will be considered in more depth below. Jaroslav Krejčí, *Czechoslovakia, 1918-92: A Laboratory for Social Change* (New York: St. Martin's Press, 1996), 5–6.

⁴¹⁷ Robert John Weston Evans, *The Making of the Habsburg Monarchy, 1550-1700: An Interpretation* (Oxford: Clarendon Press, 1979), Chs. 6 and 7; A. J. P Taylor, *The Habsburg Monarchy, 1809-1918: A History of the Austrian Empire and Austria-Hungary* (Chicago: University of Chicago Press, 1976).

⁴¹⁸ The first stage of both the Czech and Slovak nation-building was characterized by the literate elites' efforts to define the cultural specificity of the 'nation.' This process included the codification of a literary language and the essential task of creation of a stock of national narratives. In other words, the early forms of national 'awakening' were far from political. Therefore, Czech and Slovak 'national awakening' proceeded in a pattern typical of most other stateless nations during the nineteenth century, as outlined in Hroch, *Social Preconditions of National Revival in Europe*.

⁴¹⁹ Hugh LeCaine Agnew, *The Czechs and the Lands of the Bohemian Crown* (Stanford: Hoover Institution Press, 2004).

federal state, based on two constituent units - Austria and Hungary. The fact that Bohemia did not receive political recognition contributed to the radicalization of Czech national sentiment.⁴²⁰

In the aftermath of the 1867 Ausgleich, the government of Hungary engaged in a project of cultural and national assimilation of the non-Magyar population living under its rule. Hungarian was made the sole official language of the state, a policy that underpinned the territorial principle of nationhood according to which all people living in the Hungarian part of the Monarchy were members of a single, Hungarian, nation.⁴²¹ Czech nationalists, who experienced no such pressures in the Austrian half of the Monarchy, found themselves in a significantly more auspicious political position. Among other advantages, the Czechs enjoyed parliamentary representation in Vienna. Slovak nationalism, on the other hand, was confined to the political margins, and mostly took the form of cultural activity.⁴²² Therefore, in terms of national consciousness, institutional development, and political experience, Czechs and Slovaks were far from equal at the outset of the First World War.

World War 1 was the catalyst for the idea of an independent Czechoslovak state.⁴²³ In 1914, even Tomas Masaryk, who would become the first president of

⁴²⁰ Mary Heimann, *Czechoslovakia: The State That Failed* (New Haven: Yale University Press, 2009), 15–16. Ultimately, however, the Czech political elites reconciled themselves to working towards autonomy within the framework of the Monarchy. Tomas Masaryk, the founding president of Czechoslovakia, accepted this approach to the pursuit of Czech national interests until World War 1. Ibid., 22.

⁴²¹ Ibid., 16. In part, the policy of ‘Magyarization’, or cultural assimilation into the Hungarian national corpus, was motivated by the fact that Magyars comprised only a plurality of Hungary’s population. Stanislav J. Kirschbaum, *A History of Slovakia: The Struggle for Survival, 2nd ed.* (New York: Palgrave Macmillan, 2005), 110. Assimilation was supposed to ensure that Hungarians would continue to dominate their half of the Monarchy. Non-Hungarians who wished to assimilate were welcome to do so. In fact, short of emigrating, assimilation was the only realistic path for upward social mobility for Slavs and other minorities.

⁴²² Heimann, *Czechoslovakia*; Leff, *National Conflict in Czechoslovakia*, 24.

⁴²³ The idea of independence for Czechs and Slovaks was fairly new, as was the notion that the two nations might be united in a common state. Nevertheless, proposals for Czech and Slovak unity were floated in the

Czechoslovakia, preferred working within the framework of the Habsburg Monarchy in order to achieve greater autonomy for the Czechs.⁴²⁴ During the course of war, Masaryk began advocating the creation of an independent Czech state, to be joined by Slovakia.⁴²⁵ The birth of the Czechoslovak state was due in large part to great power assent⁴²⁶ and skilled political manoeuvring and territorial consolidation on the ground, during which the Czech elites attempted to wrest Slovakia away from Hungary by force.⁴²⁷

The new state offered political advantages for both the Czechs and the Slovaks. The Czechs strengthened their hand in the demographic struggle with the large German minority, resentful of its inferior status in a majority Slavic state.⁴²⁸ The Slovaks finally managed to escape subjugation at the hands of the assimilationist Hungarian government. Yet, the very process of state-making already planted the seeds of future discord. There was no meeting of legitimate representatives of Czech and Slovak peoples in which positions regarding the future state (and nation) were clearly and explicitly outlined.⁴²⁹

intellectual and political circles in the decades prior to World War I. Leff, *National Conflict in Czechoslovakia*, Ch. 1.

⁴²⁴ Heimann, *Czechoslovakia*, 22.

⁴²⁵ Szporluk argued that Masaryk's ethnic background (he was half-Slovak and half-German, and became a Czech by choice) made him more receptive to the notion of Czechoslovak unity. Roman Szporluk, *The Political Thought of Thomas G. Masaryk* (Boulder: East European Monographs, 1981), 20.

⁴²⁶ The French government was the first to accept the idea of Czecho-Slovak independence in June of 1918, when the Czechoslovak Legions captured Vladivostok in the Russian Far East. Heimann, *Czechoslovakia*, 35. Since the start of the war, the Czech and, to a much lesser degree Slovak, deserters, prisoners of war, and volunteers fought side by side with the French and Russian troops. Later in the war, they participated in operations in Serbia and Italy as well. J. F. N. Bradley, *The Czechoslovak Legion in Russia, 1914-1920* (New York: Columbia University Press, 1991). By 1918, Czechoslovak troops numbered over 50 000 in Russia alone. Their frontline presence gave Masaryk some leverage with the Entente powers, even if it was largely symbolic.

⁴²⁷ Heimann, *Czechoslovakia*, Ch. 2.

⁴²⁸ Leff, *National Conflict in Czechoslovakia*, 35. By 1930, there were more Germans than Slovaks in Czechoslovakia. Czechs comprised just over 50% of the population, Germans 22% and Slovaks under 16%. Krejci, *Czechoslovakia, 1918-92*, 12.

⁴²⁹ Though wartime meetings of émigré groups would produce documents such as the Cleveland Agreement, which explicitly outlined the program for the unification of the two lands and two equal nations (!), within a federal state. Elisabeth Bakke, *Doomed to Failure? The Czechoslovak Nation Project and the Slovak Autonomist Reaction 1918-1938* (Oslo: Dept. of Political Science, 1999), 182. Of course, such

With such ambiguity, Czechoslovakia was in for a rough ride.⁴³⁰ The Czech elites were not particularly interested in Slovak grievances, nor did they view them as particularly pressing. Their neglect of the Slovak question could be explained in part by their concern with the German ‘problem’. Czech politicians for the most part assumed that Slovaks were simply a branch of the same nation, be it Czech or Czechoslovak.⁴³¹ Among Slovaks, there was less agreement, with some accepting the existence of a Czechoslovak nation, and others insisting on separate nationhood and political autonomy.⁴³²

Conventionally, Czechoslovakia is compared favourably to other inter-war Central European states, since it was the sole democracy to survive the political upheavals of the 1920s and 1930s.⁴³³ However, the government’s model for the management of inter-ethnic relations was not conspicuously more successful than that of inter-war Yugoslavia, which offered the ultimate example of how not to run a multi-national state. The Czechoslovak constitution established a unitary polity, and afforded little recognition to the Slovaks as a separate national entity.⁴³⁴ In effect, just as the political and administrative apparatus of pre-World War I Serbia was extended to the rest of what would become Yugoslavia, so the machinery of government of the Bohemian Crown Lands was grafted onto the newly acquired Slovak lands.⁴³⁵ Most members of the Czech political establishment were ill-disposed toward the idea of Slovak autonomy.

agreements were negotiated behind closed doors, by elites that were hardly representative of either Czech or Slovak populations.

⁴³⁰ The issue was complicated by the presence of a large German and a sizeable Hungarian minority.

⁴³¹ Bakke, *Doomed to Failure?* Ch. 9.

⁴³² Krejčí, *Czechoslovakia, 1918-92*, 10.

⁴³³ Robert Bideleux and Ian Jeffries, *A History of Eastern Europe: Crisis and Change* (London: Routledge, 1998), Ch. 16.

⁴³⁴ Heimann, *Czechoslovakia*, Ch. 3. This was particularly contentious in light of Masaryk’s wartime promises of self-government for the Slovaks. Dorothea H. El Mallakh, *The Slovak Autonomy Movement, 1935-1939: A Study in Unrelenting Nationalism* (Boulder: East European Monographs, 1979), 32.

⁴³⁵ As has already been noted, Czechs were politically active and well represented in the Austrian part of the Dual Monarchy. Slovak political and administrative development was, by contrast, at a much more basic stage.

They feared that such autonomy would set the country on a path of dissolution by leading to similar demands by other ethno-national groups, particularly the Germans.⁴³⁶ Slovak parties were also largely left out of power in Prague, with the exception of a short interlude between 1927 and 1929. The central government rarely included German national parties as well.⁴³⁷

It is therefore not surprising that the cultural and economic preferences of nationalist Slovak politicians were rarely translated into policy. One result was that the already inferior socio-economic position of Slovaks worsened during the inter-war period. For example, they were cut off from their traditional source of employment and export markets in Hungary, with negative consequences for Slovakia's large agricultural sector.⁴³⁸ Similarly, the nascent Slovak industry, which started to develop behind the high wall of Hungarian tariffs during the late nineteenth century, now faced competition from the much more efficient Czech companies and suffered heavy losses.⁴³⁹ Finally, Czechs assumed most public service positions in Slovakia even after a generation of educated Slovaks was able to take over from them.⁴⁴⁰ The Great Depression exacerbated these socio-economic trends.

Even as Slovak resentment of perceived Czech domination grew, the Czech political elites reacted to minority critiques with counter-charges. While the Slovaks viewed the Czechs as patronizing and exploitative, the Czechs for their part saw

⁴³⁶ Leff, *National Conflict in Czechoslovakia*, 136.

⁴³⁷ Heimann, *Czechoslovakia*, 50; Leff, *National Conflict in Czechoslovakia*, Ch.2. Nevertheless, about half of the Slovak electorate did vote for state-wide parties. These parties did not represent regional/national interests. Leff, *National Conflict in Czechoslovakia*, 74.

⁴³⁸ El Mallakh, *The Slovak Autonomy Movement, 1935-1939*, 24–25.

⁴³⁹ Alice Teichova, *The Czechoslovak Economy, 1918-1980* (London: Routledge, 1988), 35–36.

⁴⁴⁰ El Mallakh, *The Slovak Autonomy Movement, 1935-1939*, 42.

(nationalist) Slovaks as unreasonable and ungrateful.⁴⁴¹ Mutual resentment intensified as Slovak nationalist politicians exploited Hitler's pressures on Czechoslovakia to secure autonomy in the aftermath of the Munich Agreement. Relations worsened further with the Slovak acceptance of independent statehood offered by Hitler after the invasion of the country in 1939.

World War II was to have profound consequences for the state of national relations in Czechoslovakia. For one, it provided Slovaks with a historical first: a period of self-government in a state of their own.⁴⁴² This would have important implications for the post-war settlement and demands by Slovaks for equal treatment, most explicitly stated in the Kosice agreement of 1945.⁴⁴³ Second, independent statehood reinforced the sense of separate national identity among the Slovak population.⁴⁴⁴ Third, at the end of the war, the Czechoslovak government used the pervasive anti-German mood to forcibly expel around three million of its German citizens, which was almost the entire German population of the country. This highly efficient and effective campaign of ethnic cleansing simplified Czechoslovakia's demographic profile and brought the Czech-Slovak conflict into full view.⁴⁴⁵

Relations between Czechs and Slovaks during the communist period can be divided roughly into three periods: the unitary Czechoslovak state from the end of the

⁴⁴¹ Leff, *National Conflict in Czechoslovakia*, 148. Slovaks did benefit from new schools and various other improvements in living conditions. Inter-war Czech politicians never tired of bringing up the price that they had to pay for Slovak progress. *Ibid.*, Ch. 5.

⁴⁴² The wartime Slovak state was, of course, not a sovereign entity. This was reflected in its military support for Hitler (Slovaks participated in the invasion of Poland and fought on the Eastern Front), and its collaboration in the extermination of Slovakia's Jews. Kirschbaum, *A History of Slovakia*, Ch. 6.

⁴⁴³ Leff, *National Conflict in Czechoslovakia*, 154–55.

⁴⁴⁴ *Ibid.*, 90.

⁴⁴⁵ Benjamin Frommer, *National Cleansing: Retribution Against Nazi Collaborators in Postwar Czechoslovakia* (Cambridge: Cambridge University Press, 2005); Radomír Luža, *The Transfer of the Sudeten Germans: A Study of Czech-German Relations, 1933-1962* (New York: New York University Press, 1964).

war to the Prague spring; the Prague spring with its attendant negotiations about the federal reforms of the state; and finally the ‘normalization’ era, which saw the creation of a quasi-federal polity but also a return to the old pattern of repressive Party rule. What was supposed to be a new era in Czecho-Slovak relations in the immediate post-war period was undermined by the gradual communist take-over of the Czechoslovak government. The communist seizure of power resulted in a highly centralized state.⁴⁴⁶ The Slovak communists were complicit in this process of centralization. Their reward was the loss of autonomous organizational status in 1948, when the Slovak Communist Party came to be downgraded to a mere administrative arm of its Czechoslovak counterpart (CCP).⁴⁴⁷ Slovakia therefore obtained very little political autonomy. And while the Slovak National Council was retained, most of its work was reduced to administering legislation passed down by the central government.⁴⁴⁸ Even so, it continued to influence laws in matters of culture and language. Still, in contradistinction to the inter-war period, under early communism, the Slovaks obtained at least formal institutional recognition of their separate status and nationhood. This was the foundation that allowed for further institutional gains during the political opening of the late 1960s.⁴⁴⁹

⁴⁴⁶ One of the major reasons that Slovak nationalism was not irretrievably compromised through its link with fascism was the fact that open anti-fascist resistance first emerged in Slovakia, rather than in the Czech lands. The uprising of 1944 gave a new lease of life to the idea of Slovak autonomy. Kirschbaum, *A History of Slovakia*, Ch. 10.

⁴⁴⁷ Zdenek Suda, *Zealots and Rebels: A History of the Communist Party of Czechoslovakia* (Stanford: Hoover Institution Press, 1980), 230.

⁴⁴⁸ An excellent overview of the 1948 Constitution and its implications for Slovak autonomy, and of the practical workings of the Slovak autonomy, can be found in Eduard Taborsky, “Slovakia Under Communist Rule: ‘Democratic Centralism’ Versus National Autonomy,” *Journal of Central European Affairs* 14, no. 3 (1954): 255-63.

⁴⁴⁹ Leff, *National Conflict in Czechoslovakia*, 102–103.

Several factors contributed to the Czechoslovak Communist Party's (CPP) departure from communist orthodoxy in 1968: the Soviet thaw, the democratizing impulse among Czechoslovak politicians and intellectuals, Slovak dissatisfaction with their status, and the accumulating problems of a planned economy.⁴⁵⁰ Of course, the Prague Spring lasted only several months (though reformist pressure had been mounting for half a decade) before it was crushed by the Warsaw Pact invasion and the subsequent reversal of the modest changes to the political and economic system.⁴⁵¹ Nevertheless, the reforms of 1968 paved the way for a re-construction of relations between the Czechs and Slovaks. The new leadership committed itself to a federal model of statehood based on the principle of national equality between the two constituent nations. The April Action Programme of the Party Presidium promised constitutional reform whereby the asymmetric treatment of the two nations (the Czechs did not have separate institutions of governance and administration) would be addressed in a federal system comprising two federal units.⁴⁵²

The Czech-Slovak negotiations on the shape of the state were in many ways similar to those that would take place two decades later.⁴⁵³ Each side had a fundamentally different goal in mind. Czech representatives preferred a federal system in which both levels of government would be autonomous. Their Slovak counterparts, on the other

⁴⁵⁰ Alexander Dubček, *Hope Dies Last: The Autobiography of Alexander Dubcek* (New York: Kodansha International, 1993); Vladimir V Kusin, *The Intellectual Origins of the Prague Spring; the Development of Reformist Ideas in Czechoslovakia, 1956-1967* (Cambridge: University Press, 1971); Kieran Williams, *The Prague Spring and Its Aftermath: Czechoslovak Politics, 1968-1970* (Cambridge: Cambridge University Press, 1997).

⁴⁵¹ H. Gordon Skilling, *Czechoslovakia's Interrupted Revolution* (Princeton: Princeton University Press, 1976).

⁴⁵² Paul Ello, *Czechoslovakia's Blueprint for "freedom": "Unity, Socialism & Humanity"; Dubček's Statements, the Original and Official Documents Leading to the Conflict of August 1968* (Washington: Acropolis Books, 1968).

⁴⁵³ Scott Brown, "Prelude to a Divorce? The Prague Spring as Dress Rehearsal for Czechoslovakia's 'Velvet Divorce'," *Europe-Asia Studies* 60, no. 10 (2008): 1783. The following summary is based on Skilling's seminal work. Skilling, *Czechoslovakia's Interrupted Revolution*, Ch. 15.

hand, demanded constituent unit control of the central government that would have given the state a distinctly confederal flavour. For example, most Slovaks insisted on republican veto on most policy decisions made by the central government, whereas Czech politicians suggested that such a device should be reserved only for constitutional change and a limited number of policy-decisions of key importance to the Slovak nation. For Czechs, parity with a less numerous group violated the one-person one-vote principle and was thus considered profoundly undemocratic.⁴⁵⁴ For Slovaks, it was the prospect of being constantly outvoted by the demographically dominant Czechs that was undemocratic.⁴⁵⁵

While the political and economic reforms of the Prague Spring were defeated by the Warsaw Pact intervention, the negotiated federal reforms were adopted. Czechoslovakia was organized as a federal state with two constituent units: the Czech and Slovak socialist republics. Whereas the two republics received a number of exclusive competencies, Slovak demands for extensive sub-state powers were not fully met.⁴⁵⁶ The federal government retained the right to legislate in economic matters, which was an area of particular disagreement between the two sides. On the other hand Slovak proposals for a quasi-confederal organization of the central government were adopted. The federal legislature was organized on a bi-cameral principle, with both chambers receiving equal status. Republics were granted effective veto power over most legislation by virtue of their participation in the upper chamber.⁴⁵⁷ Nevertheless, real political power remained centralized and rested with the CCP. The confederal features of the central government of Czechoslovakia would become politically salient only with the fall of communism and

⁴⁵⁴ Ibid., 481.

⁴⁵⁵ Ibid., 481.

⁴⁵⁶ Ibid., 868–69.

⁴⁵⁷ Ibid., 869.

the destruction of CCP's monopoly on power.⁴⁵⁸ I now turn to the discussion of the independent variables that I argue have shaped the pattern of accommodation of Slovak demands during the last three years of Czechoslovakia.

4.2. Political Economy of Post-Communist Czechoslovakia (Independent Variables)

Relative Levels of Development

Economic differences between the Czech and Slovak lands have deep historical roots. The Czech lands exhibited a pattern of economic development different from the rest of Eastern Europe as early as the sixteenth century. Commercial agriculture, based on a large domestic market, developed fairly early.⁴⁵⁹ Industrialization also arrived in the Czech lands sooner than in Hungary, and with it – Slovakia. Indeed, Austria and the Czech lands were the earliest and fastest industrializers in all of East Central Europe.⁴⁶⁰ By the onset of World War 1, most of the manufacturing capacity of the Austrian

⁴⁵⁸ The fall of communism in Eastern Europe in general, and in Czechoslovakia in particular, has generated an enormous literature on democratization, economic transformation, and the interplay of these two processes. I will therefore not review the causes of the regime's collapse, apart from noting the importance of democratic and pro-market ideas in the 1980s. These ideas ultimately shaped the strategy of governance to which most in the Czechoslovak leadership subscribed (see below). Of course, the collapse of communism in Czechoslovakia was intimately tied to the political opening in the Soviet Bloc initiated by the events in Poland in the early 1980s, but which received the final push as a result of Gorbachev's reforms in the Soviet Union. Karen Dawisha, *Eastern Europe, Gorbachev, and Reform: The Great Challenge, 2nd ed.* (Cambridge: Cambridge University Press, 1990); Grzegorz Ekiert, *The State Against Society: Political Crises and Their Aftermath in East Central Europe* (Princeton: Princeton University Press, 1996); Vladimir Tismaneanu, ed., *The Revolutions of 1989* (London: Routledge, 1999). When compared to the transition in some other communist states, the Czechoslovak one comes across as both orderly and rapid. Sharon L Wolchik, *Czechoslovakia in Transition: Politics, Economics, and Society* (London: Pinter, 1991).

⁴⁵⁹ Péter Gunst, "Agrarian Systems of Central and Eastern Europe," in *The Origins of Backwardness in Eastern Europe: Economics and Politics from the Middle Ages Until the Early Twentieth Century*, ed. Daniel Chirot (Berkeley: University of California Press, 1989). The existence of this market was predicated on the presence of a fairly large number of free peasants producing for nearby urban markets. This type of social structure differentiated the Bohemian lands from the areas further to the east and south.

⁴⁶⁰ T. Iván Berend, *Economic Development in East-Central Europe in the 19th and 20th Centuries* (New York: Columbia University Press, 1974), 112.

Monarchy was located in the Bohemian Crown Lands, a trend reinforced by the proximity of raw materials, navigable waterways, and fertile agricultural land.⁴⁶¹

Since Slovakia was under Hungarian rule, its industries started to develop only in the aftermath of the 1867 compromise, which enabled Hungary to start developing its nascent industries.⁴⁶² Yet Slovakia, together with Hungary, continued to rely much more on agriculture than did the Bohemian lands.⁴⁶³ These historically rooted differences were reflected in the per capita GDP figures for the two regions. The per capita GDP of what is today Slovakia was only around 56% of the Czech average in 1870. Between 1870 and 1910, the Slovak economy grew somewhat faster, so that by the end of that period, Slovakia's per capita GDP increased to around 63% of the Czech figure.⁴⁶⁴

The creation of the Czechoslovak state in 1918 therefore united two regions at noticeably different stages of economic development. Whereas Slovakia's share of the new state's population was approximately 23%, its contribution to the national income was a mere 12%, while it produced a paltry 8% of Czechoslovakia's industrial output.⁴⁶⁵ Embryonic Slovak industry, which had barely started to develop during the decades preceding World War I, was soon weakened by the competition with the superior Czech companies.⁴⁶⁶ Though some branches of Slovak industry prospered, and Slovaks became

⁴⁶¹ Ibid., 117; David F Good, *The Economic Rise of the Habsburg Empire, 1750-1914* (Berkeley: University of California Press, 1984).

⁴⁶² Good, *The Economic Rise of the Habsburg Empire, 1750-1914*, Ch. 5.

⁴⁶³ In 1910, approximately 38% of the active population of the Bohemian provinces was employed in agriculture. The corresponding figure for Hungary was 64%. Berend, *Economic Development in East-Central Europe in the 19th and 20th Centuries*, 134; 137.

⁴⁶⁴ Own calculations, based on the figures supplied in David F. Good, "The Economic Lag of Central and Eastern Europe: Income Estimates for the Habsburg Successor States, 1870-1910," *The Journal of Economic History* 54 (1994): Table 3; 879.

⁴⁶⁵ Ales Capek and Gerald W Sazama, "Czech and Slovak Economic Relations," *Europe-Asia Studies* 45, no. 2 (1993): 212.

⁴⁶⁶ Zora Pryor, "Czechoslovak Economic Development in the Interwar Period," in *A History of the Czechoslovak Republic, 1918-1948*, ed. Victor S Mamatey and Radomír Luža (Princeton: Princeton University Press, 1973), 211. The famous Škoda Works, one of Europe's largest industrial conglomerates,

better educated and came to live under better conditions, socio-economic differences between the western and eastern parts of the country did not diminish appreciably.⁴⁶⁷

Whereas inter-war Czechoslovak governments paid little attention to regional inequalities, their communist successors were much more sensitive to the territorial dimension of economic development, to Slovakia's obvious and enduring advantage. Per capita industrial and social investments were consistently higher in Slovakia than they were in the Czech Republic. This investment policy was driven by two goals. The first was to 'solve' the Slovak national question by addressing the economic disparities between the two halves of the country, and between the two nations.⁴⁶⁸ The second goal was to locate strategically important industries, including armaments factories, as far away as possible from the border with NATO states. Situated in the East, on the Soviet border, Slovakia benefited from this strategic imperative.⁴⁶⁹ Of course, these investment patterns implied a fairly high degree of redistribution of funds from the Czech lands to Slovakia.⁴⁷⁰

The outcome of these investment patterns was dramatic. Slovakia was transformed from a largely agricultural region into an industrial one within the span of a

was located in Plzen, Bohemia. Established in mid-nineteenth century, by 1918 it was producing a wide range of high value-added goods, including heavy armaments, machine tools, castings and locomotives. In 1925, the firm started producing automobiles as well, after acquiring a smaller automotive company called Laurin & Klement. Another famous industrial name was the Bata shoe works, also founded before World War I and employing a large number of people in independent Czechoslovakia.

⁴⁶⁷ Ibid., 214.

⁴⁶⁸ Petr Pavlínek, "Regional Development and the Disintegration of Czechoslovakia," *Geoforum* 26, no. 4 (1995): 355.

⁴⁶⁹ Ibid., 355.

⁴⁷⁰ Capek and Sazama, "Czech and Slovak Economic Relations," 216. For instance, the transfers amounted to about 15% of Slovakia's income in the 1950s and between 5 and 7% of the same during the 1980s. The figures corresponded to 4.5% of Czech income in the first period, and 3% in the second. Ibid.

single generation.⁴⁷¹ Industrialization was accompanied by gradual convergence in levels of income and productivity among Slovak and Czech lands. Everyday lives of most Slovaks also improved, both in absolute terms and relative to their Czech compatriots. Table 1 reproduces figures compiled by Capek and Sazama.⁴⁷² The data show that between the communist take-over in 1948 and the collapse of the regime in 1989, Slovakia's share in national income increased by 21%. In addition, and more starkly, its share in Czechoslovakia's industrial output jumped from 13.5 to 29.5%. The productivity of Slovak labour showed a significant increase, from 62 to 96% of the Czech level. Finally, the per capita income in Slovakia reached approximately 88% of levels prevalent in the Czech republic.⁴⁷³

Though economic convergence between the two constituent units of Czechoslovakia was not complete, it was quite significant. For Slovaks, in economic terms at least, the socialist experience was significantly more positive than the democratic/capitalist experience of the inter-war period.⁴⁷⁴ However dysfunctional the socialist model might have been in theory, in practice it brought an unprecedented level of development and prosperity to Slovakia. For the Czechs, the lesson of state socialism was quite different. In the inter-war period, Czech industries were among the world's most advanced. At the start of the socialist period, the already industrialized and developed Czech economy was re-structured according to the economic needs of the Soviet bloc. This re-orientation resulted in excessive emphasis on capital goods

⁴⁷¹ For a general overview of the political economy of states in the Soviet orbit, see T. Iván Berend, *Central and Eastern Europe, 1944-1993: Detour from the Periphery to the Periphery* (Cambridge: Cambridge University Press, 1996).

⁴⁷² See Appendix B, Table 1.

⁴⁷³ Ibid.

⁴⁷⁴ Capek and Sazama, "Czech and Slovak Economic Relations," 217.

industries, as opposed to the consumer goods production in which Czech firms had an advantage. The transformation of the Czech economy launched what was perceived by many Czechs as a long economic decline.⁴⁷⁵ The political consequences of this perception would become clear during the last three years of Czechoslovakia's existence.

Despite significant convergence between the Czech and Slovak economies, important differences nevertheless remained. Structural features of the Slovak economy, primarily its reliance on subsidies from the centre (and from the USSR) and its orientation toward military production and production for the Soviet Bloc markets, made it less competitive in comparison to the Czech economy. The defence industry, for instance, contributed around 6% of Slovakia's industrial output, and only 2% of that of the Czech Republic. Therefore, the government decision to scale back military production was costlier for Slovaks than it was for Czechs.⁴⁷⁶ Furthermore, Slovak industries were characterized by lower export competitiveness, a structural feature not easily corrected in the short run.⁴⁷⁷ The following discussion sketches out some of the persistent differences which would prove important for the accommodation process in Czechoslovakia, and which were exacerbated by the free-market policies of the federal government.

The shock of the economic transition hit Slovakia much harder than it did the Czech Republic. The per capita GDP figures show that the gap between the two republics

⁴⁷⁵ Of course, the Czechs were not comparing themselves to other Central and East European economies, but rather those of their Western neighbours. These comparisons were defeating. During the inter-war period, the economy of Czechoslovakia was equal to Belgium and Austria. By 1989, the per capita income in the Czech Republic was less than half of the European capitalist economies. Josef C. Brada, "The Economic Transition of Czechoslovakia From Plan to Market," *The Journal of Economic Perspectives* 5, no. 4 (1991): 172.

⁴⁷⁶ Capek and Sazama, "Czech and Slovak Economic Relations," 225.

⁴⁷⁷ *Ibid.*, 226. While Czech companies were also expected to improve their export competitiveness, they were nevertheless performing better than their Slovak counterparts.

widened quite abruptly, especially between 1990 and 1991. Thus, the gap essentially doubled between 1989, when the Slovak per capita GDP reached approximately 88% of Czech levels, and 1992, when it dropped to 74% of the Czech figure.⁴⁷⁸ This drop in productivity was reflected in the employment figures as well. Whereas the Czech economy shed fairly few jobs and retained a remarkably low rate of unemployment, the Slovak labour market underwent a profound and rapid transformation, with the unemployment rate skyrocketing virtually within one year (again, 1990 to 1991). Thus, the number of registered unemployed in 1990 was 39,603, but reached 301,951 only a year later.⁴⁷⁹ By mid-1992, around the time of Czechoslovakia's second general election, the unemployment rate was 11.3% in Slovakia, whereas it was a mere 2.6% in the Czech republic.⁴⁸⁰ The following section examines the policies that contributed to this contraction and their philosophical and political underpinnings.

Strategy of Governance

As is usually the case in multinational states, differences in regional levels of development in Czechoslovakia corresponded to some fundamental differences in perceptions of the appropriate role of the state in the economy. In Czechoslovakia, recent history played a significant role in this respect. Namely, while Slovakia owed its development and modernization to socialist economic policies, those same policies were responsible for the economic retardation of the Czech Republic. Socialism transformed the Czech lands from one of the most economically advanced areas of Europe in the

⁴⁷⁸ See Appendix B, Table 2.

⁴⁷⁹ Štatistický úrad Slovenskej republiky, *Štatistická Rocenka Slovenskej Republiky = Statistical Yearbook of the Slovak Republic* (Bratislava: Štatistický úrad Slovenskej republiky, 1995), 37.

⁴⁸⁰ Sharon L Wolchik, "The Politics of Ethnicity in Post-communist Czechoslovakia," *East European Politics and Societies* 8, no. 1 (1994): 165.

inter-war period to just another inefficient socialist economic laggard. As a result, ideas about post-communist economic policy circulating among the Czech and Slovak elites were quite different.

Nevertheless, in the years leading up to the fall of communism in 1989, most critics of the regime agreed that state socialism was a dysfunctional system and that some version of market economy would have to take its place.⁴⁸¹ Combined with the rise of neo-classical economic ideas, promoted by international economic institutions such as the International Monetary Fund and the governments of some key states, laissez-faire capitalism was ascendant. Thus, in part due to internal factors, and in part thanks to external legitimacy of liberal economic ideas, Czechoslovakia's democratic government adopted a largely laissez-faire strategy of governance.

By the time socialist regimes started collapsing in Central and Eastern Europe in 1989, free market ideas had assumed near hegemonic status among policy makers in a number of important states (most significantly in the US and the UK, though the conversion of the French socialists also had international repercussions), in key international institutions (such as the IMF and the World Bank), as well as among many economists.⁴⁸² Though the theories of Milton Friedman and Friedrich von Hayek, or even less radical Western economists, had obviously not been taught in the economics departments of the communist academies, underground channels had facilitated the

⁴⁸¹ Gil Eyal, *The Origins of Postcommunist Elites: From Prague Spring to the Breakup of Czechoslovakia* (Minneapolis: University of Minnesota Press, 2003), 89.

⁴⁸² Thomas J Biersteker, "Reducing the Role of the State in the Economy: A Conceptual Exploration of IMF and World Bank Prescriptions," *International Studies Quarterly* 34, no. 4 (1990): 477; Ravi K Roy, Arthur Denzau, and Thomas D Willett, eds., *Neoliberalism: National and Regional Experiments with Global Ideas* (London: Routledge, 2006). For a fascinating analysis of the politics of ideas, and particularly the influence of the US Treasury over the World Bank policy preferences, see R. H. Wade, "US Hegemony and the World Bank: The Fight over People and Ideas," *Review of International Political Economy* 9, no. 2 (2002): 215-243. He also discusses the central role played by neo-liberal ideas in the World Bank over the past several decades.

circulation of various ‘heretical’ economic ideas. Neo-classical economic theory was particularly attractive to communist technocrats, some of whom would become leading reformists in the former Soviet Bloc.⁴⁸³

One should note that East European communist-era dissidents did not subscribe to radical ideas, as did Polish minister of finance Balcerowicz or his Czechoslovak counterpart, and later the Czech prime-minister and president, Václav Klaus. Czech dissidents in particular were humanist intellectuals whose ideal economic system reflected more closely the preferences of Western social democrats than free-market Thatcherites.⁴⁸⁴ Nevertheless, it is not difficult to understand the appeal of market-based solutions to economic problems in countries where stifling statism was the enforced norm for half a century. Just as in Spain, statism was associated with the authoritarian regime. Furthermore, in the case of most Central European states, this authoritarian regime was viewed as a foreign imposition, and was thereby doubly illegitimate.⁴⁸⁵ This was particularly the case among a younger generation of technocrats and economists who, at least in the case of Czechoslovakia (and particularly the Czech Republic), would come to play an important role in policy-making.

⁴⁸³ Paul Dragos Aligica and Anthony John Evans, *The Neoliberal Revolution in Eastern Europe: Economic Ideas in the Transition from Communism* (Cheltenham: Edward Elgar, 2009), Ch. 2; Eyal, *The Origins of Postcommunist Elites*, 80.

⁴⁸⁴ Eyal, *The Origins of Postcommunist Elites*, 89.

⁴⁸⁵ As Neumann notes, discourses about Central European identities contain overtones of Orientalism when it comes to Russia. While Western Europe is in a sense also an ‘other’ to Central Europeans (meaning opinion-makers, intellectuals and other creators and disseminators of identity), Poles, Czechs and Hungarians at the same time claim membership in that same Western, European ‘civilizational’ community. Soviet imperialism, on the other hand, was repugnant not only because of its repressive content, but because it was imposed by an ‘other’ of dubiously European character. As Milan Kundera put it, “Russia is not just as one more European power but as a singular civilization, an other civilization. [T]otalitarian Russian civilization is the radical negation of the modern West.” Iver B Neumann, *Uses of the Other: “The East” in European Identity Formation* (Minneapolis: University of Minnesota Press, 1999), 151. Thus, to accept Western ideas of economic management was also, in a sense, an act of affirming one’s distance from that ‘other.’ Communism was therefore not only an authoritarian regime, but also a culturally alien imposition. George Schöpflin, *Nations, Identity, Power* (London: Hurst & Co., 2000), 144–45.

The pro-market orientation of a number of Czech politicians was reinforced by the efforts of international organizations such as the World Bank and the IMF to provide economic expertise to countries where knowledge of market mechanisms was in short supply. Thus, both organizations implemented programs transferring Western economic know-how to academics and policy-makers in post-communist economies. The IMF, for instance, offered training at its headquarters, while establishing regional training centres, of which the most important was the Joint Vienna Institute.⁴⁸⁶

The most prominent figure behind the implementation of Czechoslovakia's laissez-faire strategy of governance was its minister of finance, Václav Klaus. Klaus was only one of a group of former communist-era technocrats who distinguished themselves by their reformist activism and scholarship during the 1960s.⁴⁸⁷ With the defeat of the Prague Spring, their academic and public service career prospects reached a dead end. Nevertheless, they continued studying Western economics in secret, but were neither connected to the 'civil society' dissidents, nor mainstream economists and policy makers.⁴⁸⁸ Klaus and his circle were impressed by the works of neo-classical economists, and were staunchly opposed to 'third-way' approaches to economic management.⁴⁸⁹ Rather, they embraced a systematic and radical reduction of the government's role in the economy, even as they accepted some need for social stabilizers in order to deal with the inevitable political backlash of reforms.⁴⁹⁰

⁴⁸⁶ Aligica and Evans, *The Neoliberal Revolution in Eastern Europe*, 70.

⁴⁸⁷ Klaus spent time in Italy during the early part of the 1960s. During his stay abroad, he was exposed to the ideas of economists such as Friedman and Hayek. Václav Klaus, "Creating a Capitalist Czechoslovakia: An Interview with Vaclav Klaus," in *After the Velvet Revolution: Václav Havel and the New Leaders of Czechoslovakia Speak Out*, ed. Tim D Whipple (New York: Freedom House, 1991), 153.

⁴⁸⁸ Eyal, *The Origins of Postcommunist Elites*, Ch. 3.

⁴⁸⁹ These approaches sought to reform socialist economies, rather than supplant them altogether.

⁴⁹⁰ Eyal, *The Origins of Postcommunist Elites*; Mitchell A Orenstein, *Out of the Red: Building Capitalism and Democracy in Postcommunist Europe* (Ann Arbor: University of Michigan Press, 2001), Ch. 3.

Klaus's market radicalism comes through clearly in early interviews following the 'Velvet Revolution.' He favoured a 'market economy without adjectives.'⁴⁹¹ As a true monetarist, he was primarily concerned with inflation, and was committed to a restrictive fiscal and monetary policy, part and parcel of which was the cutting of government subsidies to firms and individuals.⁴⁹² Several years later, when discussing his experience with the reforms, he again emphasized the necessity of accepting the dictates of the market, noting that trying to employ targeted public policy in order to soften the blow of the transition would have been counterproductive.⁴⁹³ Klaus produced a systematic, if brief, manifesto that listed restrictive macroeconomic policy, few wage regulations, convertible currency, free trade with the outside world, and privatization of public companies as fundamental policy goals which would lead to a strong economy.

Of course, the real world of politics was different from the one wished for by Klaus and other radical reformers. The interim post-communist government immediately proceeded to devalue the Czechoslovak crown and tighten fiscal policy. The first *elected* government, brought to power in the elections of June 1990, was similarly committed to the creation of a market economy.⁴⁹⁴ However, disagreements on the exact nature and pace of economic reforms emerged fairly early. While some economists, such as Klaus, emphasized the need for a full, unambiguous, and immediate shift to a free market system, others were advocating a continuing and significant presence of the state in the

⁴⁹¹ Klaus, "Creating a Capitalist Czechoslovakia: An Interview with Vaclav Klaus," 149.

⁴⁹² *Ibid.*, 153; 160.

⁴⁹³ Václav Klaus, *The Ten Commandments of Systemic Reform* (Washington, DC: Group of Thirty, 1993), 2.

⁴⁹⁴ Karel Dyba and Jan Svejnar, "Stabilization and Transition in Czechoslovakia," in *The Transition in Eastern Europe*, ed. Olivier Blanchard, Kenneth Froot, and Jeffrey Sachs (Chicago: University of Chicago Press, 1994), 98.

economy, both during the transition and beyond it.⁴⁹⁵ These disagreements ultimately made their way from the pages of academic journals to parliamentary and government committees.

For instance, Valtr Komarek, democratic Czechoslovakia's first deputy prime-minister, advocated a gradualist model of transition, cautioning against the ill-effects of 'shock-therapy', like the one being implemented in Poland at the time.⁴⁹⁶ Klaus's radical measures in the 1990 budget, the most important of which included deep cuts to the government budget, did not pass unopposed. Indeed, the first round of cuts was limited to defence and security, while health spending and investment subsidies were maintained.⁴⁹⁷ Yet, as the combined measures failed to yield expected results in terms of macroeconomic stability, with rapid expansion of credit in the economy, political pressure was building for more drastic policy steps.⁴⁹⁸

Ultimately, a radical program of reforms was adopted by the parliament on September 17, 1990, though even this program included elements of compromise. The program placed emphasis on macroeconomic stability through tight fiscal and monetary policies, liberalization of foreign trade, and 'improvement' of social policy.⁴⁹⁹ It made clear that "major macroeconomic goals, such as economic growth, full employment, and balanced payments will all be subject to [halting the inflationary process]."⁵⁰⁰ The 1991

⁴⁹⁵ M. R Myant, *Transforming Socialist Economies: The Case of Poland and Czechoslovakia* (Aldershot: E. Elgar, 1993), 165–67.

⁴⁹⁶ *Ibid.*, 169–70.

⁴⁹⁷ *Ibid.*, 173.

⁴⁹⁸ *Ibid.*, 173.

⁴⁹⁹ Peter Martin, "'Scenario for Economic Reform' Adopted," *Report on Eastern Europe -Radio Free Europe* 1, no. 42 (October 19, 1990): 5–6. In fact, the social policies referred to were meant to address the needs of the most vulnerable members of society, in order to 'alleviate the effect of price increases on the lowest-income segments of the population. Bijan B Aghevli, *Stabilization and Structural Reform in the Czech and Slovak Federal Republic: First Stage* (Washington, DC: International Monetary Fund, 1992), 8.

⁵⁰⁰ Martin, "'Scenario for Economic Reform' Adopted," 6.

budget was supposed to produce a surplus, primarily through reducing subsidies for enterprises and ‘other state expenditures’. Budgetary subsidies were slated to drop from 16% to about 7% of GDP.⁵⁰¹ In fact, overall public spending was to be reduced from a very high 60% of GDP down to 47.4% within one year.⁵⁰² Less severe cuts were applied to social programs, which were revised in order to co-opt the population and win its support for such radical changes. Yet, even these social programs were meant to be “Beveridge-style state-guaranteed minimums, supplemented by social insurance programs to emphasize individual responsibility.”⁵⁰³ Other elements of the program addressed the transformation of property rights through a two-step privatization process, as well as through price liberalization and currency convertibility.⁵⁰⁴

Orenstein emphasizes the moderating effect of social policy ‘buffers’ that the federal government of Czechoslovakia implemented as a sweetener to go with the bitter remedy of reform.⁵⁰⁵ Yet, contemporary critiques of the program confirmed its radical character. Economists critical of the federal government’s policies argued that macroeconomic stability should not be achieved at the expense of long-term growth. They suggested that the state ought to play a continued role in investment and transition to a more competitive economy.⁵⁰⁶ The government was to protect potentially

⁵⁰¹ Aghevli, *Stabilization and Structural Reform in the Czech and Slovak Federal Republic*, 8.

⁵⁰² *Ibid.*, 4; Table 1.

⁵⁰³ Orenstein, *Out of the Red*, 73. Orenstein’s thesis is that Czechoslovak reforms were not as radical as is usually suggested. He notes that some social guarantees were the precondition for the success of Czechoslovak (and, later on, the Czech) economic reforms. *Ibid.*, 75. However, he himself notes the bare minimum of support that such programs provided. At any rate, even the presence of such ‘social sensitivity’ does not change both the fact, and the general perception that what was happening in Czechoslovakia in the early 1990s constituted a shift towards a strongly laissez-faire strategy of governance, in which the role of the state was supposed to be significantly reduced.

⁵⁰⁴ Martin, “‘Scenario for Economic Reform’ Adopted.”

⁵⁰⁵ The reform was implemented on January 1, 1991.

⁵⁰⁶ See, for instance, Milan Matejka, quoted in Foreign Broadcast Information Service, “Assembly Voices Objections to Economic Reforms,” *East European Report* 14 (1990): 13.

competitive industries in order to strengthen them prior to exposing them to the full force of foreign competition.⁵⁰⁷

Thus, both in terms of public pronouncements and policies implemented, one can conclude that Czechoslovakia's federal government demonstrated a fairly consistent commitment, especially among the most relevant economic policy actors, to the reduction of the state's role in the economy. If the market radicals around Václav Klaus had enjoyed greater political support in the government, the reform would likely have been more radical than was actually the case. Yet, even the 'moderated radicalism' of Czechoslovak reformers had profound consequences, both with respect to the political demands emanating from the Slovak Republic, and with respect to the ability and willingness of the Czechoslovak (and Czech!) leaders to accommodate those demands. The following section outlines the extent of accommodation of Slovak claims in democratic Czechoslovakia.

4.3. Accommodation in Post-Communist Czechoslovakia (Dependent Variable)

Precise assessment of the degree to which Slovak demands were accommodated by the federal government between 1989 and 1992 must be undertaken with caution. Given that the process of accommodation was cut short by the dissolution of the state, I am examining a brief period of time, which makes it difficult to understand how representative the observed trends are of what would have taken place had the state survived. However, I demonstrate that there was a definitive trend away from accommodating Slovak claims as time wore on. In short, whereas Slovaks demanded

⁵⁰⁷ Myant, *Transforming Socialist Economies*, 182.

either a loose federation or confederation, the Czechs, both those in the federal government and at the republican level, tended to resist such demands and advocated a more tightly integrated federation.

Democratic Czechoslovakia did not start out as a highly centralized state. Rather, the aforementioned federalism with confederal characteristics, established by the 1968 Constitutional Law of Federation, equipped Czechoslovakia's republics with extensive institutional influence, both over future constitutional reform and over central government policy. The Czechoslovak Federal Assembly was a bicameral institution, in which both chambers were required to adopt an item of legislation in order for it to become law.⁵⁰⁸ While the lower house held a greater number of representatives from the more populous Czech Republic, the upper house, the Chamber of Nations, contained an equal number of representatives from each constituent unit.⁵⁰⁹ Republics had de facto veto power over most of the important federal legislation. According to Article 42, a legislative proposal would have to be endorsed by a majority of Czech and Slovak representatives in the upper house of Parliament, voting separately. In other words, if a bare majority of Slovak representatives voted against a proposal, it would not become law, even if more than two-thirds support were secured in the entire upper chamber. This rule applied in spheres of economic management, federal budget, tax policy, foreign economic relations, and confidence votes.⁵¹⁰ In other words, representatives from each of the republics could block legislative proposals in some of the most important policy

⁵⁰⁸ Czechoslovakia, *The Constitution of the Czechoslovak Socialist Republic* (Prague: Orbis Press Agency, 1987), 67.

⁵⁰⁹ *Ibid.*, 68.

⁵¹⁰ *Ibid.*, 72–73.

areas. Constitutional amendments were also subject to Slovak (and Czech) veto, since they required assent by three-fifths of the deputies from each republic.⁵¹¹ (Article 41)

Under communism, these confederal features were politically inconsequential, since real decision-making power rested with the centralized CCP. The demise of the Communist Party monopoly and the introduction of political competition finally actualized the provisions of the 1968 constitution, making Slovak veto power a political reality.⁵¹² Of course, this institutional framework exerted strong influence over the ability of the central government to make decisions on a range of issues, including the question of autonomy and constitutional negotiations. I will discuss the impact of Czechoslovakia's institutional design on the accommodative outcomes in the next section.

Thus, Slovakia enjoyed a high degree of *political autonomy* as a consequence of communist-era constitutional developments. Both constituent republics controlled their own legislative and executive institutions, along with autonomous bureaucracies.⁵¹³ The existence of these autonomous institutional spheres was affirmed in the misleadingly named 'power-sharing law', passed in December of 1990.⁵¹⁴ The law included the right of each republic to self-determination up to and including separation, affirming the sovereignty of both the constituent units and the common state.⁵¹⁵ In addition, Slovak political autonomy was reinforced by the separation between the Czech and Slovak party

⁵¹¹ For a similar assessment of this institutional context, see Eric Stein, *Czecho/Slovakia: Ethnic Conflict, Constitutional Fissure, Negotiated Breakup* (Ann Arbor: University of Michigan Press, 1997), 49.

⁵¹² Carol Skalnik Leff, *The Czech and Slovak Republics: Nation Versus State* (Boulder: Westview Press, 1996), 132–33.

⁵¹³ *Ibid.*, 64; Skilling, *Czechoslovakia's Interrupted Revolution*, Ch. 19.

⁵¹⁴ The law decided on the division of competencies, rather than on the sharing of power of either the two constituent republics at the central level, or parties representing either the Czechs or the Slovaks.

⁵¹⁵ Stein, *Czecho/Slovakia*, 73.

systems. In other words, no major Slovak party was institutionally subordinate to a higher-level, state-wide party.⁵¹⁶

In terms of recognition of formal status for the minority nation(s), Czechoslovakia appears to have been more accommodative than either Spain or Canada, two states characterized in this dissertation as possessing high accommodative capacity. Even though the Spanish and Canadian governments have accommodated a number of Québécois and Catalan demands, they have been more reluctant to extend formal recognition of nationhood to those groups.⁵¹⁷ Yet, in comparing accommodative outcomes across states, it is important to consider the historical political conditions. In the context of Czechoslovak federal reforms of 1968 and the subsequent two decades of formal recognition of Slovak nationhood, the acceptance of constituent unit sovereignty in post-communist Czechoslovakia does not seem particularly radical. By comparison, the much more circumscribed recognition of Spain's 'nationalities' in the 1978 Constitution was arguably a more significant accommodative achievement, since it was accomplished in the context in which exponents of the *ancien régime*, including the military, were hostile to the idea of accommodation.

As I have argued in previous chapters, formal/institutional guarantees of autonomy mean little without the ability to make, implement, and finance policy in an autonomous manner. During the first year of transition, Czechoslovakia's republics increased both their *policy and fiscal autonomy* relative to the communist period. Thus, during the first round of 'power-sharing' negotiations, a number of Slovak demands for the transfer of competencies from the federal government to the republics were met. The

⁵¹⁶ Leff, *The Czech and Slovak Republics*, 134.

⁵¹⁷ The federal Parliament of Canada has recognized Quebec as a nation only in the past decade. The recognition is statutory, rather than constitutional.

reform was supposed to be an interim solution before the final constitutional settlement. The federal government was to retain authority over defence, foreign policy, foreign trade, monetary policy, taxation, customs, and prices. It was furthermore to remain in charge of establishing “its own budget through direct federal taxation in both republics [with] the republics [having] their own taxation systems and budgets.”⁵¹⁸ The law was passed by the Federal Assembly on December 12, 1990, amid considerable acrimony, including Slovak threats to declare supremacy of republican over federal laws if their proposals were radically reshaped in the federal assembly.⁵¹⁹ Importantly, the original Slovak plan to make the federation fiscally dependent on the republics did not pass.⁵²⁰

In the sphere of fiscal policy, republican governments quickly received a much higher share of tax revenue, while increasing their spending levels by a smaller amount. Republican governments more than doubled their revenue base, from 28 to 63% of all tax revenue, while increasing their share of public spending from 46.5 to 59.4% between 1989 and 1991.⁵²¹ On the other hand, the same law limited republican fiscal autonomy by stipulating conditions under which republican governments could raise revenues, including the overall levels of taxation.

Constitutional negotiations that followed the ‘power-sharing’ agreement of 1990 represented a shift in attitudes of federal and Czech officials regarding Slovak demands.

⁵¹⁸ Jiri Pehe, “Power-sharing Law Approved by Federal Assembly,” *Report on Eastern Europe* 1, no. 51 (1990): 7.

⁵¹⁹ Abby Innes, *Czechoslovakia: The Short Goodbye* (New Haven: Yale University Press, 2001), 120–25; Pehe, “Power-sharing Law Approved by Federal Assembly”; Stein, *Czecho/Slovakia*, 60–78.

⁵²⁰ Innes, *Czechoslovakia*, 165. At a bilateral meeting between the Czech and Slovak governments, which took place in April of 1990, representatives of the two republics “agreed that the easiest way to stop all arguments over who paid for whom was for each republic to live off the taxes collected on its own territory; the federation would get only a set amount for necessary expenses.” Václav Zak, “The Velvet Divorce - Institutional Foundations,” in *The End of Czechoslovakia*, ed. Jiri Musil (Budapest: Central European University Press, 1995), 251.

⁵²¹ Raphael Shen, *Economic Reform in Poland and Czechoslovakia: Lessons in Systemic Transformation* (Westport: Praeger, 1993), 104.

From this point onward, Slovak claims were met with much less good will from the other side. I will first discuss the federal and Czech republican governments' responses to Slovak constitutional demands, and will follow with a discussion of the legislative division of powers.

Specific constitutional claims made by Slovak politicians, and Czech responses to those claims, varied both over time and from party to party. Still, several central demands can be distilled from the literature on constitutional negotiations. Slovak non-separatist nationalists requested symbolic and legal recognition of Slovakia's sovereignty.⁵²² Namely, Slovak representatives insisted that the new constitution should be a product of an inter-state treaty between Slovakia and the Czech Republic; that this treaty would then be legally binding on the Federal Assembly, which would pass it as a constitutional document; and that this document would subsequently have to be returned to the National Assemblies of the two republics for ratification.⁵²³ On occasion, Slovak representatives suggested that the proposed treaty should have the force of international law.⁵²⁴ Furthermore, some Slovak proposals included the suggestion that all subsequent constitutional amendments should be subject to ratification by republican assemblies.⁵²⁵

Most of the relevant federal and Czech actors resisted these demands, recognizing in them confederal, rather than federal, elements. Key Czech political figures, such as Czechoslovakia's president Václav Klaus, and the Premier of the Czech Republic, Petr

⁵²² The non-separatist nationalist parties exclude the Slovak National Party which advocated independence. The most important non-separatist nationalist parties were the Christian Democratic Movement of Jan Čarnogursky and the Movement for Democratic Slovakia, headed by Vladimír Mečiar. Mečiar's party was established when he broke off from the umbrella political party, Public Against Violence, in March of 1991. Abby Innes, "The Breakup of Czechoslovakia: The Impact of Party Development on the Separation of the State," *East European Politics and Societies* 11, no. 3 (1997): 408–12.

⁵²³ Innes, *Czechoslovakia*, Ch. 4; Stein, *Czecho/Slovakia*, Chs. 6–9.

⁵²⁴ Stein, *Czecho/Slovakia*, 111.

⁵²⁵ *Ibid.*, 135.

Pithart, dismissed Slovak demands. They understood that fulfilling those demands would mean that the Czechoslovak state would derive its sovereignty and legitimacy from the constituent units rather than from the entire population of Czechoslovakia.⁵²⁶ Each time the negotiations resulted in a proposal with a strong confederal flavour, the Czech side would scuttle the agreement. The Slovaks, on the other hand, would veto those proposals that threatened to result in a more centralized federation. The Czech side offered compromises, for example, that the treaty should not be binding, or that it would have the authority of internal, rather than international law. In November of 1991, the Czechs again rejected the legally binding nature of the inter-republican treaty, but assented to one-off ratification of the constitution by the constituent units.⁵²⁷ Another key Slovak demand concerned the preservation of veto power over day-to-day legislation in the federal assembly. Though some federal and Czech officials were ready to accept this demand, they were in the minority.⁵²⁸

Beyond the initial ‘power-sharing agreement’ of 1990, Slovak claims regarding the division of competencies between governments met with a similar response. Slovak political elites demanded the expansion of competencies for the republics, whereas their Czech and federal counterparts veered in the opposite direction, especially regarding powers related to economic policy. On a number of occasions, Slovak political representatives insisted that most economic instruments be placed in the hands of republican governments.⁵²⁹ The aforementioned proposal—that the fiscal capacity of the federal government should be decided by the constituent units—is typical of such

⁵²⁶ Innes, *Czechoslovakia*, 126; Stein, *Czecho/Slovakia*, 105; 108.

⁵²⁷ Stein, *Czecho/Slovakia*, 134–35.

⁵²⁸ *Ibid.*, 136.

⁵²⁹ *Ibid.*, 128.

demands. In the lead-up to the 1992 elections, even more radical ideas were discussed, for example, that each republic should have its own central bank and monetary policy.⁵³⁰ On the other hand, federal and Czech republican leaders insisted on federal control of prices, social policies, and wages, demands rejected by both the nationalist Slovak National Party and the Movement for Democratic Slovakia (MDS) of the Slovak Premier Vladimir Mečiar.⁵³¹ The last round of negotiations, which took place at the Milovy resort prior to the June 1992 elections, produced a draft of the constitutional treaty that endowed the federal government with extensive competencies, including in areas of internal security, customs, and central banking.⁵³² As a result, the proposal was rejected by the Presidium of the Slovak National Council.⁵³³

The failure of the negotiations at Milovy prompted all parties to agree to postpone further negotiations to the post-election period. It was hoped the elections would produce a clearer mandate for both the Czech and Slovak negotiators. In the event, the contest brought to power political parties and leaders with almost diametrically opposite programs. Václav Klaus emerged as the most popular Czech politician. His Civic Democratic Party (CDP) won greatest support on both the federal and republican levels among the Czech electorate, with Vladimir Mečiar securing similar results among the Slovaks. The goals of the two leaders were fundamentally incompatible. Klaus was less conciliatory than some of the other Czech leaders participating in the negotiations up to that point and wanted a more centralized federation. Mečiar, in turn, was at this point

⁵³⁰ Ibid., 166.

⁵³¹ Innes, *Czechoslovakia*, 131. Mečiar was Slovakia's Premier from 1990 to 1991, and again from 1992 until the breakup of Czechoslovakia and beyond.

⁵³² Stein, *Czecho/Slovakia*, 173.

⁵³³ Ibid., 173.

openly advocating a confederal Czecho-Slovakia. The result was a negotiated breakup of the country, which has been extensively documented and analyzed elsewhere.⁵³⁴

Over time, therefore, the Czech federal and republican political elites became less accommodating of Slovak demands for territorial autonomy. In fact, a number of officials at the federal level, such as Václav Klaus, acting in his capacity as the federal Minister of Finance, were intent on limiting the powers that the republics had inherited from the communist period. The Czech decision to give up on the common state represented the ultimate refusal of accommodation.⁵³⁵ In the following section I demonstrate that the increasing resistance of the Czech federal and republican leadership to Slovak demands for autonomy was a result of underlying conditions in the political economy of Czechoslovakia. The accommodation of some of the initial Slovak demands is attributable to the confederal institutional framework inherited from the socialist period. Confederal institutional features provided Slovak political elites with leverage that minorities in multinational states seldom possess.

4.4. Explaining the Accommodative Capacity of Czechoslovakia

As the foregoing section has demonstrated, during the first several months of post-communist transition, the Czechoslovak federal elites and their counterparts in the Czech Republic showed a significant degree of willingness to accommodate Slovak demands. However, in subsequent negotiations the Czechs proved to be increasingly

⁵³⁴ Innes, *Czechoslovakia*; Robert Young, *The Breakup of Czechoslovakia* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1994).

⁵³⁵ The next section will show that the specific form of this repudiation was dependent on the institutional context in which the Czecho-Slovak political conflict played out.

unyielding. In this section, I show that the federal government's commitment to a laissez-faire strategy of governance, combined with Czechoslovakia's patterns of regional economic inequality, made the accommodation of Slovak claims untenable. The federal government's liberal economic policies were far costlier in the less developed Slovakia than in the wealthier Czech Republic. Slovak leaders demanded autonomy in part in order to mitigate the effects of these policies in their republic. The leadership at the federal level, as well as that of the Czech republic, understood that satisfying Slovak claims would have compromised the central government's strategy of governance. In other words, they believed that accommodation would have undercut the economic competitiveness of Czechoslovakia, and that they would have made the country ungovernable. Even had Czechoslovakia survived, and even had the Slovak demands been accommodated, the central government would likely have exerted continuing pressure on Slovak autonomy for as long as the federal government's strategy of governance entailed minimal state involvement in the economy, and for as long as that strategy was perceived as harmful by Slovak elites.

Typically, analysts have portrayed the Czechoslovak breakup as a result of elite political gamesmanship, noting that the majority of Czechs and Slovaks had been opposed to the breakup of the state and had desired a compromise solution.⁵³⁶ Table 3 offers evidence in support of such assertions. Even in Slovakia, where the population tended to be more preoccupied by issues of autonomy and national identity, support for independence never exceeded 17% among respondents. By March of 1992, however, 32%

⁵³⁶ Keith Crawford, *East Central European Politics Today: From Chaos to Stability?* (Manchester: Manchester University Press, 1996), 140–41; Normand Perreault, "Czechoslovakia: Secession and Formation of a New Partnership," in *Globalization, Governance and Identity: The Emergence of New Partnerships*, ed. Guy Lachapelle and John E. Trent (Montreal: Presses de l'Université de Montréal, 2000).

of Slovaks, a plurality, were in favour of confederation, with those favouring the continuation of the federal state comprising 24% of the sample, a precipitous drop from the 63% of people who supported such an option in June of 1990.⁵³⁷ Yet, even if we assume that most Slovaks and nearly all Czechs wished to see Czechoslovakia survive, the polls strongly suggest that the two populations harboured drastically different ideas about the preferred future shape of the state. This divergence was reflected in the attitudes of the Czech and Slovak political elites as well.

I argue that part of the reason for this divergence in attitudes toward the common state can be found in the choices made in the domain of economic policy. Certainly, it is true that prominent Czech politicians continued to misunderstand Slovak national aspirations, possibly leading to a swing in Slovak public opinion toward the confederal option and toward greater support for independence. Numerous gaffes of Czech officials, including of the normally conciliatory and tactful Václav Havel, give credence to this position.⁵³⁸ The economic factor, however, played a central role in the development of Slovak demands, as well as in shaping the Czech (federal and republican) response. Both were rooted in more than just self-serving actions of ambitious politicians.

As previously noted, Czechs and Slovaks had developed dissimilar attitudes toward the communist period. Since Slovakia industrialized during the socialist period, Slovak apprehension about economic interventionism was nowhere near as intense as that of their Czech counterparts. On the other hand, communism had deprived the Czech

⁵³⁷ See Appendix B, Table 3.

⁵³⁸ Innes, *Czechoslovakia*; Leff, *The Czech and Slovak Republics*.

Republic of its lofty position in the economic hierarchy of European states/regions.⁵³⁹ Hence, it is not surprising to find that Czechs and Slovaks harboured different attitudes toward economic reforms. For example, as early as March of 1990, one could observe that Slovaks consistently preferred greater government intervention in the economy than did the Czechs.⁵⁴⁰ The difference between the two groups ranged between 10 and 15 percentage points on most questions, with Slovaks leaning in favour of strikes, state responsibility in securing employment, and a ‘decent standard of living for every citizen’; and opposing radical economic reform, and showing less willingness to put up with most of the ill-effects of market economy.⁵⁴¹ These differences were only exacerbated with the implementation of laissez-faire reforms in January of 1991. Thus, in mid-1991, as many as 58% of Slovaks preferred a government-controlled economy, in contrast to only 35% of Czechs, a substantial difference.⁵⁴² Nationalist Slovak politicians, such as Vladimir Mečiar and Christian Democrat Jan Čarnogursky, were not simply inflaming an otherwise benign situation. Rather, they were, depending on one’s perception of politics, either articulating serious popular concerns, or playing them up for an already fearful electorate.

However important these early differences in public opinion would prove to be, inter-ethnic conflict was far from the top of the political agenda during the early period of post-communist transition. The major parties that emerged in opposition to the communist regime, the Slovak Public Against Violence (PAV) and the Czech Civic

⁵³⁹ Capek and Sazama, “Czech and Slovak Economic Relations,,” 217; Josef Kotrba and Karel Kriz, “The Common State in Economic Perspective,” *Report on Eastern Europe -Radio Free Europe* 5, no. 5 (1992): 3–4.

⁵⁴⁰ Leff, *The Czech and Slovak Republics*, 186; Table 6.2.

⁵⁴¹ *Ibid.*, 186; Table 6.2.

⁵⁴² David M. Olson, “Dissolution of the State: Political Parties and the 1992 Election in Czechoslovakia,” *Communist and Post-Communist Studies* 26, no. 3 (1993): 306; Table 1.

Forum (CF), were large umbrella organizations far more concerned with ensuring the end of Czechoslovak communism and sustainable transition to democracy and market economy. In fact, the PAV and the CF formed a coalition government in the aftermath of the first free elections in June of 1990, and generally cooperated during the first year of transition on key political and economic reforms.⁵⁴³ However, even during the initial months of the transition, a number of Slovak politicians, including members of the PAV, exhibited an interest in the national question not matched among their Czech colleagues. Though members of the Public Against Violence endorsed democratization and the creation of a market economy, they were also advocating greater equality of the constituent nations in a democratic federal state.⁵⁴⁴

Nationalist disagreements between Czech and Slovak politicians first emerged publicly in the symbolic arena, and only subsequently polarized the debates surrounding the economic reform and constitutional negotiations. Thus, when president Havel proposed changes to the symbols of the state, including the stripping of the adjective ‘socialist’ from the official name of Czechoslovakia, the infamous ‘hyphen war’ broke out between Czech and Slovak deputies. The first verbal salvo in the ‘hyphen war’ was discharged by the Slovak deputies in the federal parliament, in January of 1990. They tabled a proposal that the very name of the state should be changed from ‘Czechoslovakia’ to ‘Czecho-Slovak Republic.’ It was believed that the change would represent a symbolic break with assimilationist ‘Czechoslovakism’ of the past, and that it would recognize the Slovak content of the common state identity. A number of Czech deputies vehemently resisted this proposal, which was ultimately defeated in the lower

⁵⁴³ Leff, *The Czech and Slovak Republics*, Ch. 3; Wolchik, “The Politics of Ethnicity in Post-communist Czechoslovakia,” 154.

⁵⁴⁴ Leff, *The Czech and Slovak Republics*, 81–82.

house of parliament. The alternative proposal to name the state ‘Czechoslovak Federative Republic’ was defeated by the Slovak deputies in the upper house of parliament, as a consequence of the institutional rules already discussed in this chapter. The compromise solution gave birth to the short-lived Czech and Slovak Federative Republic.⁵⁴⁵ While the hyphen war carried little policy significance, it demonstrated deep-seated mutual resentments, at least among the political elites of the two republics. These resentments became far more consequential with the commencement of negotiations over more serious and tangible issues such as the division of powers between levels of government and the economic reform.

Discussions about economic reform were from the start driven by economic radicals in the federal government. Key economic portfolios went to radical reformist Czechs.⁵⁴⁶ For the minister of finance, Václav Klaus, as for many other Czechs, economic reform, together with democratization, was a matter of ‘rejoining Europe’ as much as it was a means of improving the economic well-being of the citizenry. Furthermore, despite the fact that the reforms devised by Klaus were initially tempered by the more moderate members of the CF, his program was ultimately implemented in January of 1991.⁵⁴⁷ Even more important than the content of the reforms was how they were perceived. Slovak political elites, and many among the Slovak public, believed that a ‘Prague-centric federal government’ had implemented policies that disproportionately hurt the Slovaks.⁵⁴⁸

⁵⁴⁵ Stein, *Czecho/Slovakia*, 57–60.

⁵⁴⁶ Innes, *Czechoslovakia*, 148; Leff, *The Czech and Slovak Republics*, 95.

⁵⁴⁷ Myant, *Transforming Socialist Economies*, Ch. 8; Orenstein, *Out of the Red*, Ch. 3.

⁵⁴⁸ Innes, *Czechoslovakia*, 154.

Early Slovak preferences for more gradual reform and a greater role for the state in the economy, combined with the disproportionately negative impact of the economic reforms in Slovakia, converged to produce demands that are typically voiced by less developed minorities in multinational states. That is, Slovak politicians advocated a departure from laissez-faire reforms and greater government intervention in economic and social affairs.⁵⁴⁹ Jan Čarnogursky's Christian Democrats, for instance, supported a social market economy on the early post-war German model.⁵⁵⁰ The Slovak Prime Minister, Vladimir Mečiar, was a critic of federal economic policy while he was still a member of the PAV, and even more so when he split with it and established his own party, the Movement for Democratic Slovakia (MDS).⁵⁵¹ Other members of the PAV, who were initially supportive of radical reform, also changed their minds during late 1990, as the ill effects of the reform started to be felt in Slovakia.⁵⁵² The fact that, in the midst of intra-Slovak political infighting in early 1991, Mečiar became the most popular Slovak politician⁵⁵³ belies the notion that more moderate Slovak politicians could have somehow brought their followers around to support the radical economic platform.

Slovak constitutional (and institutional) demands were intimately linked with the process of economic reform. Certainly, Slovaks generally harboured different preferences with respect to the future shape of the state than did the Czechs. Slovak attitudes were rooted in their experience as a minority nation in a bi-national state. Like most minority nations, they took issue with being out-weighted and marginalized at the central-state

⁵⁴⁹ During the 1960s, the Québécois political elites also preferred a strong role for the state in the economy. On the other hand, the relatively more developed minorities, such as the Slovenes and Croats in Yugoslavia, and Basques and Catalans in Spain, tended to prefer laissez-faire strategies of governance.

⁵⁵⁰ Innes, "The Breakup of Czechoslovakia," 407, fn. 35.

⁵⁵¹ *Ibid.*, 409.

⁵⁵² Innes, *Czechoslovakia*, 154.

⁵⁵³ With the approval rate of 89%! Innes, "The Breakup of Czechoslovakia," 409.

level, and insisted on institutional remedies that they could use to escape this predicament. Greater autonomy was one such remedy. Furthermore, the pre-existing confederal arrangements, inaugurated with the 1968 constitutional amendments and retained in the democratic period, had held the promise of future organizational possibilities, not only of autonomy for Slovakia, but also of Slovak influence at the centre.⁵⁵⁴

For the Slovak elites, however, institutional reforms were a means to several ends. One was greater influence over Czechoslovak politics in and of itself. The other was influence over the direction of economic reform, and future economic strategies, with particular emphasis on the protection of Slovak economic interests.⁵⁵⁵ As Abby Innes notes, in light of the relatively poor performance of the Slovak economy, “a highly practical economic justification thus clearly existed for Slovak concerns over her constitutional and international status.”⁵⁵⁶ In this sense, it would be analytically unwise to consider Slovak politicians’ constitutional demands separately from their economic preferences.

Vladimir Mečiar seized on the economic issue quite early, in the aftermath of the 1990 elections. He defended his insistence on greater autonomy for Slovakia by noting that the problems of transition were much more significant in ‘his’ republic (presumably more so than in the Czech half of the federation) and that it was the popular dissatisfaction with such a state of affairs that was strengthening the hand of the separatist

⁵⁵⁴ It would make little sense for Slovaks to accept less than the communist-era constitution already gave them: territorial autonomy for Slovakia, and veto power over a range of policies and constitutional change at the federal level. Had late-socialist Czechoslovakia been a unitary state, the institutional circumstances would have been different and the Slovak demands would most likely have reflected this state of affairs.

⁵⁵⁵ Myant, *Transforming Socialist Economies*, 221–22.

⁵⁵⁶ Innes, *Czechoslovakia*, 163.

Slovak Nationalist Party.⁵⁵⁷ While Mečiar and other Slovak politicians initially accepted the need for reform, they also emphasized the economically disadvantageous position of Slovakia, relative to the Czech half of the country, and euphemistically called for the federal government's greater sensitivity to 'special features' or 'regional specifics' of the Slovak economy.⁵⁵⁸

Mečiar himself demonstrated quite clearly that he understood the long-term handicaps of the Slovak economy, when he stated that the divergent attitudes of Czechs and Slovaks toward economic reform were based primarily on immediate economic problems, though historical perceptions and experiences had much to do with them as well.⁵⁵⁹ On one occasion, he noted that "in Slovakia about 20 percent of people would not be missed by anyone if they left their places of work tomorrow."⁵⁶⁰ While he accepted the need to address these inefficiencies, he criticized federal economic policy in the following manner: "what I object to, as far as the reform is concerned, is the lack of its social sensitivity, its excessive emphasis on systemic measures as a panacea, and its disregard for the settlement of practical relations, as though this were no longer needed."⁵⁶¹ Similar concerns were expressed by Jan Čarnogursky in mid-1991, by which point he had taken Mečiar's place as Slovakia's Prime Minister. Čarnogursky also paid lip service to the general goals of economic reform, but then stated that, while he and his

⁵⁵⁷ Foreign Broadcast Information Service, "Meciar Supports Federation," *East European Report*, no. 90-161 (August 20, 1990): 18.

⁵⁵⁸ Foreign Broadcast Information Service, "Rudolf Filkus on Slovak Economic 'Handicaps'", no. 90-169 (August 30, 1990): 23; Foreign Broadcast Information Service, "Meciar Speaks on Federation, Economic Reform," *East European Report*, no. 90-239 (December 12, 1990): 20.

⁵⁵⁹ Foreign Broadcast Information Service, "Meciar Spells Out Views in Czech Daily," *East European Report*, no. 90-239 (December 12, 1990): 30.

⁵⁶⁰ *Ibid.*, 30.

⁵⁶¹ *Ibid.* Indeed, Mečiar blamed the split in the ruling PAV on diverging understandings of both the Slovak national program (his opponents not being 'Slovak' enough) and of the economic reform, which he believed had to be tailored more closely to the socio-economic conditions prevailing in Slovakia. Foreign Broadcast Information Service, "Meciar Interviewed on VPN Split," *Daily Report East Europe* (March 11, 1991): 22-23.

economic team agreed with the general thrust of restrictive financial policy, he would want some exceptions to it ‘in some regions’, or selective financial aid to particularly jeopardized enterprises, urging the federal government to extend aid here as well.⁵⁶²

As already noted, in the early months of the transition, some concessions were made to Slovak demands for greater republican autonomy. Slovak claims were, after all, paralleled by equivalent Czech arguments about the necessity to reduce the institutional power of the previously all-powerful federal state. Thus, initial decentralization, including the substantial devolution of fiscal resources to the republics, was in large part a consequence of the consensus between the Czech and Slovak governing elites about the need for a decisive move away from socialism.⁵⁶³ An additional explanation of these concessions was Slovak political influence in federal institutions, where Slovak representatives held veto power over federal policy. Without such leverage, Slovak demands would probably not have been met to the degree described in the previous section. This influence was clearly demonstrated in the negotiations leading up to the ‘power-sharing’ agreement in November of 1990. Basing their claim on the communist-era constitutional recognition of republican sovereignty, Slovakia’s leaders threatened to proclaim the supremacy of republican over federal laws, if their demands for policy and fiscal autonomy were not met.⁵⁶⁴

Even in these circumstances, which strengthened the hand of the Slovak political elites, concessions were nevertheless limited. For instance, in April of 1990, the prime ministers of Slovakia and the Czech Republic, Vladimir Mečiar and Petr Pithart, agreed

⁵⁶² Foreign Broadcast Information Service, “Carnogursky Interviewed on Slovak Economy,” *Daily Report East Europe* 16 May 1991 (1991): 13.

⁵⁶³ Innes, *Czechoslovakia*, 120.

⁵⁶⁴ Pehe, “Power-sharing Law Approved by Federal Assembly,” 6; Stein, *Czecho/Slovakia*, 68–69.

on a proposal that all federal funds would be made available to the federal government by the constituent units. This proposal, which would have eliminated the fiscal independence of the federal government, was rejected by federal officials. The central government retained its fiscal leverage through direct taxation of citizens. It also preserved some of its control over the constituent republics, including the authority to set broad limits to republic-level taxation.⁵⁶⁵

In early 1991, both Public Against Violence and Civic Forum split internally, ending Czechoslovakia's era of broad-based political movements. Sharply divergent political options, previously dormant due to the organizational character of the two coalitions, finally came out in the open. Consequently, relations between the different players, including the federal and Slovak governments, deteriorated. The federal minister of finance, Václav Klaus, was from the beginning opposed to loose federalism or confederalism. As he formed his own Civic Democratic Party in February of 1991, he gained more freedom to criticize Slovak proposals.⁵⁶⁶ He and other federal political figures made it clear that their opposition to loose federalism/confederalism was rooted in their concern about the fate of the economic reform.⁵⁶⁷ Thus, the federal minister for strategic planning, Pavel Hoffmann, had the following to say about the issue of Slovak demands

I believe that we cannot have two different reforms in a single economy. [...] [Applying divergent policies for different regions is also] fraught with considerable danger. This danger resides in the fact that, even with changed

⁵⁶⁵ Innes, *Czechoslovakia*, 165; Jan Obrman and Jiri Pehe, "Difficult Power-sharing Talks," *Report on Eastern Europe -Radio Free Europe* 1, no. 49 (1990): 7; Stein, *Czecho/Slovakia*, 76.

⁵⁶⁶ For a concise overview of party developments in both the Czech Republic and Slovakia, see Innes, "The Breakup of Czechoslovakia."

⁵⁶⁷ Most English-language studies of these processes concur with the assessment offered here. Confederalism and loose federalism were far too costly because they threatened to undermine the speed and depth of market reforms. *Ibid.*, 424; Leff, *The Czech and Slovak Republics*, 135–36; Orenstein, *Out of the Red*, 84; Stein, *Czecho/Slovakia*, Chs. 4, 9, 10; Young, *The Breakup of Czechoslovakia*, 14–15.

budget rules, the consequences of disparate basic methods can pass over from one part of our economy to the other. This means that, with a single currency, a different budget policy in Slovakia, for example, can bring about a different rate of inflation there, the negative concomitant effects of which can then be transferred to the other part of the state as well.⁵⁶⁸

This is as clear a corroboration of the thesis presented in this dissertation as one can find. Here, a federal official notes that fiscal autonomy for the minority-inhabited region was untenable because it would have undermined the central government's strategy of governance. More specifically, Hoffmann understood that autonomous Slovak government would have employed an expansionist fiscal policy, compromising Czechoslovakia's macroeconomic stability.⁵⁶⁹ When Slovak demands intensified to include requests for a separate fiscal and even monetary policy, the writing was on the wall for the federal political elites.⁵⁷⁰ Czech republican politicians, initially well disposed toward some Slovak demands (as they themselves had much to gain from their implementation), were also increasingly opposed to them, a fact contributing to the constitutional deadlock during 1991 and early 1992.⁵⁷¹

To summarize, federal and Czech leaders were increasingly averse to accommodating Slovak demands because they felt that such a move would compromise the federal government's ability to govern the entire state. The fundamental difference in preferred strategies of governance between Slovak and Czech sides was the key behind this unwillingness, though it is also true that Czech federal and republican officials had a

⁵⁶⁸ Foreign Broadcast Information Service, "Minister Hoffmann Interviewed on Reform, Slovakia," *Daily Report East Europe* 10 May 1991 (1991): 9.

⁵⁶⁹ Certainly, in countries adopting statist policies such issues are not nearly as problematic, as the case of Canada during the 1960s demonstrates.

⁵⁷⁰ Slovak representatives were arguing in favour of separate central banks and common, rather than single, currency. For the distinction between the two, see Robert A. Mundell, "A Theory of Optimum Currency Areas," *The American Economic Review* 51, no. 4 (1961): 658–59.

⁵⁷¹ Stein, *Czecho/Slovakia*, 134–36.

fundamentally different view of the appropriate organization of the state.⁵⁷² As I have continued to argue in this dissertation, less developed minorities typically prefer statist solutions to their developmental problems. In this respect, Slovak officials were similar to their Quebecois counterparts during the 1960s. The specific political form of minority demands can differ, but the fundamental issue is that minority leaders are perfectly capable of understanding that free market solutions tend to exacerbate economic differences, favouring the already wealthy majority-inhabited regions. Political autonomy in these circumstances is both a goal in itself and an instrument by means of which the minority group believes it can foster its own economic development.

The contrast with Canada, in which the majority-inhabited areas were also relatively more developed, is instructive. The key difference was that in Canada, the federal government had adopted a moderately statist approach to governance, whereas the Czechoslovak government implemented a laissez-faire strategy. If the central government adopts statist solutions, as the federal government of Canada did in the 1960s, autonomy for the minority-inhabited region is not likely to threaten its fundamental policy goals.⁵⁷³ However, if the central government adopts a laissez-faire strategy of governance, as was the case with the federal government of Czechoslovakia during the period in question, full political autonomy for the less developed minority nation can be a serious obstacle to consistent implementation of state-wide economic policies. Thus, the prospect of autonomous fiscal policy for Slovakia was enough to make federal officials take notice.

⁵⁷² Petr Pithart, "The Division/Dissolution of Czechoslovakia: Old Sins and New Forms of Selfishness," in *Irreconcilable Differences? Explaining Czechoslovakia's Dissolution*, ed. Michael Kraus and Allison Stanger (Lanham: Rowman & Littlefield, 2000).

⁵⁷³ This claim should be accompanied by appropriate caveats. As I have shown in the previous chapter, where the state is divided into a larger number of constituent units, symmetric devolution of power to all constituent units might be problematic since it has the potential to undermine the central government's governing capacity.

Expansionary fiscal policy in that part of the federation would have jeopardized the immediate macroeconomic goals of the central government. Moreover, had Czechoslovakia not ceased to exist, Slovak autonomy would have had the potential to continue to disrupt the federal strategy of governance. It was this potential of ‘looser federalism’, to say nothing of confederalism, that convinced Klaus that the breakup of the state would be the preferred option.

Had the federal government’s preferred strategy of governance been less radical, as Canada’s was during the 1960s, the goals of Slovak and federal political elites would have been more compatible. In such an alternative scenario, it is conceivable that Slovak institutional demands would not have been as radical as they had become. For instance, separate central banks would not have been as necessary to provide extra monetary stimulus, since the federal government itself would have supplied it. On the other hand, from the perspective of the federal government even the more radical demands for autonomy and institutional reform would not have appeared as threatening if the Slovak and federal strategies of governance were more closely aligned. Canada therefore serves as a partial counterfactual to the Czechoslovak case.

Of course, the accommodative capacity of Czechoslovakia would have been greater even under a laissez-faire strategy of governance had the geographic distribution of wealth and economic power been different. Thus, had the minority-inhabited Slovakia been relatively more developed, it likely would have advocated a similarly liberal strategy of governance, in order to capitalize on its economic advantages within the federal union. This was certainly the case with the more developed minority regions in Spain and the former Yugoslavia, as the following chapter will demonstrate. In

Yugoslavia in particular, during the second half of the 1960s, one can see how demands for autonomy, voiced by relatively well-off minorities, can be met if the central government adopts a laissez-faire economic strategy. Spain offers a less clear-cut though still notable example of this pattern of accommodation. The Spanish case shows that a fairly liberal strategy of governance can coincide with increasingly expansive autonomy for wealthy minority-inhabited regions.

In Czechoslovakia, the confederal institutional vision endorsed by the Slovak political elites clashed openly with Czech ideas about ‘functional’ federalism during the country’s final elections, in June of 1992. Vladimir Mečiar’s Movement for Democratic Slovakia, campaigning on a platform of slower and more socially sensitive economic reform, and confederal organization of Czechoslovakia, won the highest number of votes, both at the federal and republican levels. Václav Klaus and his Civic Democratic Party carried a victory of similar magnitude among the Czech electorate, again, on both levels.⁵⁷⁴ Klaus’s preferred option for the organization of the Czechoslovak state was clearly not compatible with the one Mečiar had in mind. For Klaus, a more tightly integrated federal state was the most accommodative option he was willing to consider. This fact made the country’s breakup, under the prevailing institutional arrangement, all but certain.⁵⁷⁵

As already noted, there was another critical factor that influenced the direction and extent of accommodation of Slovak demands. This was the confederal organization

⁵⁷⁴ In the federal legislative elections, MDS and CDP obtained virtually identical results. Each party won approximately 34% of the vote in their respective constituencies, with nearly half of available seats in the lower house, and approximately the same in the House of Nations. Innes, “The Breakup of Czechoslovakia,” 430. In the respective national councils (republic-level legislatures), the CDP won 30% of the vote, whereas Mečiar’s MDS did significantly better, with 37% of votes and nearly half of all the seats. (Ibid.)

⁵⁷⁵ For details of the negotiations leading to the breakup, see Innes, *Czechoslovakia*; Stein, *Czecho/Slovakia*.

of government. Just as was the case with Yugoslavia since the early 1970s, the Czechoslovak central government was unable to impose its vision of the state, which would have been to limit the autonomy of the constituent republics. In other words, the federal and Czech resistance to Slovak demands would have been more effective had Slovaks not wielded policy veto power at the centre. This is at most a complementary explanation of the accommodative capacity of Czechoslovakia; still, it is an important institutional factor and should figure in future explorations of accommodative dynamics.

Explaining the Breakup

The goal of this chapter was not to explain the breakup of Czechoslovakia, but rather the resistance of federal and Czech elites to demands for Slovak autonomy. However, the dynamics analyzed in this chapter can also enhance our understanding of the ‘velvet divorce’. I will therefore provide a brief explanation of Czechoslovakia’s demise.

The critical factor in the dissolution was the institutional framework inherited from the socialist regime. As I have already shown, Slovak deputies in the upper house of parliament were in a position to block federal legislation in most policy areas quite easily.⁵⁷⁶ This power-sharing institutional arrangement gave Slovak politicians exceptional leverage.⁵⁷⁷ Without Slovak veto power over day-to-day policy matters, Czech politicians could have conceivably reconciled themselves to a long constitutional impasse. Constitutional reform is not in and of itself a prerequisite for a functioning

⁵⁷⁶ So were the Czech deputies, though they were for the most part aligned with the federal government on most of the strategic issues.

⁵⁷⁷ Such leverage is seldom seen even in multinational states. Compare, for instance, the position of Catalans, Scots and Quebecers in their respective countries.

government. Canada, for example, has continued to function fairly well for three decades after the constitutional patriation which left the province of Quebec effectively outside of the constitution.⁵⁷⁸ But policy veto power can also allow a sub-state government or its representatives to paralyze the day-to-day workings of the state. Such paralysis is politically far costlier than constitutional immobility even during times of ‘normal’ politics, to say nothing of the transitional context in which Czechoslovakia found itself during the early 1990s.

Policy veto power therefore gave Czech politicians (both at the federal and republican levels) an incentive to take constitutional reform seriously. On the other hand, structural factors I have outlined above made Slovak demands incompatible with the strategic policy goals of both the federal government and the government of the Czech republic. Without policy veto power, Slovak demands would most likely have met with federal refusal. The outcome would likely have been a fairly strongly integrated Czechoslovakia with a large number of dissatisfied Slovaks and continuing tensions, at least for as long as the central government adhered to the liberal strategy of governance. Secession would have been a possible outcome, but only as a consequence of a unilateral Slovak referendum on independence, rather than of mutual agreement. In this scenario, Czechs would not have had the incentive to accept the breakup of the state, though the Slovak side might have. With Slovak veto available, however, the Czech calculus was quite different. Slovak nationalist resentment, combined with veto power over federal policy, made it clear that the continuation of the common state would be far too costly to the Czech side – by making economic reform and European integration far more fraught

⁵⁷⁸ This is not to say that a constitutional impasse has little political importance. Rather, it does not usually make a country ungovernable.

and possibly delayed. For this reason Václav Klaus and his inner circle opted for the least costly solution for the Czechs– the dissolution of Czechoslovakia.

4.5. Conclusion

This chapter has demonstrated that the pressures for the reduction of Slovakia's autonomy were to a significant extent a result of the political economy of democratic Czechoslovakia. As I have hypothesized in this dissertation (Chapter 2), in states where minority-inhabited regions are relatively less developed in economic terms, and where the central government commits itself to a laissez-faire strategy of governance, durable accommodation is unlikely to occur. Market-based reforms implemented by the Czechoslovak federal government had a disproportionately negative impact on the economically backward Slovakia. Slovak leaders, with the support of their constituents, demanded greater autonomy for their republic, in large part in the hope that they could protect Slovak residents from the most adverse consequences of liberal economic reforms.

Federal and Czech leadership was initially willing to grant greater autonomy to the Slovak government, as a consequence of two highly unusual factors. The first was the transitional moment that made the majority leadership receptive to the weakening of the federal centre, in the hope of solidifying democratic gains of early transition. The second was the *de facto* confederal organization of the federal legislative branch, inherited from the communist-era constitution. Confederal institutional features included policy veto power for republican representatives in the upper house of parliament. This institutional

device gave Slovak representatives an unusual amount of leverage, the kind that minorities normally do not possess in most federal states.

With time, federal and Czech leaders were increasingly less willing to accommodate Slovak demands for greater autonomy and influence at the centre. They understood that yielding to Slovak claims would threaten to undercut the pro-market strategy of governance that was being implemented during the vulnerable early years of the transition. Most Czech leaders were unable to understand why their Slovak counterparts were, as they viewed it, obsessed by the national question. Nevertheless, they saw in institutional autonomy of the Slovak republic a threat to the ability of the central government to implement its preferred policies. In the absence of confederal institutional features, and given the conflicting visions of the appropriate strategy of governance among Slovak and federal/Czech elites, accommodation would have been much more limited and breakup would have been less likely. If the breakup were to have taken place, it would have been a consequence of a Slovak referendum on independence, rather than the Czech push toward dissolution. Given Slovak leverage, however, the Czech elites, Václav Klaus foremost among them, understood that the costs of remaining in the same state would have exceeded the costs of breaking up. While explaining the breakup of Czechoslovakia was not the aim of this chapter, the factors accounting for the accommodative capacity of Czechoslovakia also influenced the ultimate fate of that country.

CHAPTER 5: Yugoslavia

In hindsight, Yugoslavia's experiment in multinational state-building appears to have been an unmitigated disaster. Yet, the wars of the 1990s, as well as nationalist crises preceding the country's breakup, hide a much more complex story. While relations among Yugoslavia's major ethnic groups were frequently troubled, the post-World War II period saw some noteworthy achievements as well. One of the most significant was the re-building of Yugoslav society following fratricidal warfare during World War II.⁵⁷⁹ Another was the formal recognition of all major national groups and their progressive institutional inclusion by means of an evolving ethno-federal framework.⁵⁸⁰

Much the same contradictory story can be told about patterns of territorial accommodation during the socialist period. On a number of occasions, the Yugoslav leadership proved remarkably accommodating of demands for greater autonomy for the country's federal units. At other times, it was less so. Taken overall, patterns of territorial autonomy in Yugoslavia varied over time, demonstrating unevenness in the ability of the central government to accommodate demands for greater devolution of power to Yugoslavia's republics. In 1960, Yugoslavia was formally a multinational federation. Five of its six republics were officially constituted as national homelands for each major

⁵⁷⁹ To claim that this was a result of the regime's authoritarian nature would be facile. People from different ethnic backgrounds were not forced to inter-marry, for instance, nor to establish friendships across ethnic lines. Bette Denich, "Unmaking Multi-Ethnicity in Yugoslavia: Metamorphosis Observed," *The Anthropology of East Europe Review* 11, no. 1 & 2 (1993): 48-60. Unfortunately, apart from some aggregate studies of intermarriage during the entire socialist period, we have virtually no social scientific studies of micro-relations across ethnic lines in the immediate post-war period.

⁵⁸⁰ Some groups were recognized as nations for the first time during this period. This was the case with Macedonians and Bosnian Muslims (today Bosniacs).

ethno-national group.⁵⁸¹ Despite this, real political power was centralized, rather than dispersed as it is in authentic federations. The most important strategic issues, as well as more mundane policy problems, were decided upon by the federal Party Politburo in Belgrade.⁵⁸² When the federal leadership started to consider the re-organization of the state during the early years of the 1960s, Croatian political elites articulated the most forceful and coherent demands for greater autonomy for both Croatia and the other constituent republics. During the first half of the period under consideration, between approximately 1963 and 1971, the Yugoslav central government gradually accommodated many of these demands. From 1972 to 1982 the trend was partially reversed.

This chapter demonstrates how the political economy factors outlined in Chapter 2 have influenced the process of decentralization during both periods. For as long as the federal government embraced a laissez-faire version of socialism, which entailed limited social and territorial redistribution of financial resources and smaller government outlays, it could accept the increased autonomy of its wealthy and autonomy-minded republics, Slovenia and Croatia. However, federal Party elites were unable to consistently embrace the market without undermining a major source of legitimacy for the socialist regime - the promise of social equality.⁵⁸³ Thus, even during the heyday of 'market socialism', the central government was facing redistributive demands from a variety of important constituents. I will show that these pressures made the process of devolution more

⁵⁸¹ The republics were Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro and Macedonia. Only Bosnia and Herzegovina did not contain a clear national majority. Bosnian Muslims, which eventually became the largest group, received national status in 1968.

⁵⁸² Lenard J. Cohen, "Conflict Management and Political Institutionalization in Socialist Yugoslavia: A Case Study of the Parliamentary System," in *Legislatures in Plural Societies: The Search for Cohesion in National Development*, ed. Albert F. Eldridge (Durham: Duke University Press, 1977).

⁵⁸³ The Chinese would later show that the combination of sustained economic growth and political repression can yield remarkable political stability even with growing social inequality.

contentious than it would have been in different structural circumstances, such as a more consistently laissez-faire approach to economic and social policies.

Once the central government reverted to a statist strategy of governance, from 1972 onward, the fiscal and political autonomy of Slovenia and Croatia became problematic. Greater autonomy for these two revenue-rich republics undermined the federal government's ability to implement redistributive policies for which it had both the constitutional mandate and the support of the less developed parts of the federation. Without the fiscal resources of the wealthiest republics, statist policies of the central government were not feasible. Autonomy therefore became an obstacle to the central elites' project of legitimation and came under increasing pressure.

At this point, the structural explanation provided in this dissertation starts to lose traction. The degree of recentralization that was actually achieved had its roots in the newly minted institutional features of Yugoslav federalism. With successive rounds of devolution, by 1971 each constituent republic had acquired veto power over the policy-making process of the federal government. As the central government sought to fulfill its new redistributive mandate, it strove to restore some of its power. Constituent unit influence at the centre made this much more difficult than it would have been under a different institutional framework. Given the statist pressures on republican autonomy, the extent of recentralization would have been much greater in a classical federal system or a confederal system characterized by majoritarian decision-making.⁵⁸⁴ The following

⁵⁸⁴ Canada and Spain are examples of states in which territorial units have no formal institutional influence over the federal decision-making process. The European Union has increasingly departed from decision-making by consensus and shifted towards qualified, and sometimes simple, majority vote. It therefore constitutes an example of confederal institutional design with majoritarian characteristics. See Fiona Hayes-Renshaw and Helen Wallace, *The Council of Ministers*, 2nd ed. (Houndmills: Palgrave Macmillan, 2006), Ch. 10.

section offers a brief history of Yugoslav national relations: a review of this history provides the backdrop for the rest of the chapter, in which I explain accommodative outcomes between the early 1960s and the early 1980s.

5.1. Historical Background

Yugoslavia was established as the Kingdom of Serbs, Croats, and Slovenes in 1918, in the immediate aftermath of World War I.⁵⁸⁵ It is true that the great powers played a crucial role in the creation of Yugoslavia.⁵⁸⁶ It is also the case that many non-Serbs were apprehensive about the kind of state they were entering, fearing potential Serb domination.⁵⁸⁷ Yet, as with Czechoslovakia, it would be nonsensical to label this country as ‘artificial.’ A minimal ideological and political basis for the creation of the state of the South Slavs arguably did exist.⁵⁸⁸ In the aftermath of World War I, both the government of Serbia and the leaders of the Yugoslav Committee, who claimed to represent the interests of the South Slavs in the Austro-Hungarian monarchy (Croats, Slovenes, and Serbs), supported the merger of Serbia and the Austro-Hungarian territories inhabited by South Slavs.⁵⁸⁹

The simple fact of ethnic diversity was probably not as consequential for Yugoslavia’s viability as a state, as were the absence of a common political history and the disastrous policies that the Yugoslav government implemented in addressing the

⁵⁸⁵ Ivo Banac, *The National Question in Yugoslavia: Origins, History, Politics* (Ithaca: Cornell University Press, 1984).

⁵⁸⁶ Ivo J Lederer, *Yugoslavia at the Paris Peace Conference; a Study in Frontiermaking* (New Haven: Yale University Press, 1963).

⁵⁸⁷ Banac, *The National Question in Yugoslavia*.

⁵⁸⁸ Andrew Wachtel, *Making a Nation, Breaking a Nation: Literature and Cultural Politics in Yugoslavia*, (Stanford: Stanford University Press, 1998). The new state would exclude a large branch of the South Slav family: the Bulgarians.

⁵⁸⁹ Banac, *The National Question in Yugoslavia*, 117–18.

national question. Yugoslavia's various nations were, despite their ethnic and linguistic⁵⁹⁰ similarity, divided among different empires and subjected to divergent political, social, and economic conditions. As a result, in 1919 there was little sense of common history, which normally plays a vital role in state-building and nationalist narratives.⁵⁹¹ The policies of the Serb-dominated government aggravated the situation. On the one hand, the state was too weak to engage in successful nation-building (i.e. assimilationist) policies on the French model.⁵⁹² On the other hand, the leadership was unwilling to politically accommodate the aspirations of major non-Serb nations, among whom the Croats were the most vocal. The leadership of the Croat Peasant Party, the strongest Croatian force on the Yugoslav political scene, insisted on a federal arrangement of the common state, within which Croatia would be recognized as an autonomous, self-governing unit.⁵⁹³ The royal regime did little to meet these demands, retaining the unitary form of government instead and compounding the problem by abolishing democracy in 1929. Moreover, throughout the inter-war period, institutions of

⁵⁹⁰ Most of Yugoslavia's peoples speak some variant of Croatian or Serbian. The major exceptions are the Slovenes, Macedonians and Albanians. In essence, Serbian and Croatian are two names given to the same language. Since the breakup of Yugoslavia, further linguistic fragmentation took place, at least in the juridical sense. Serbian and Croatian have been joined by Bosnian and, most recently, Montenegrin language. Robin Okey, "Serbian, Croatian, Bosnian? Language and Nationality in the Lands of Former Yugoslavia," *East European Quarterly* 38, no. 4 (2005): 419-441. The absurdity of this proliferation becomes clear if one considers the Anglophone analogy: one need only imagine that instead of English, people spoke Canadian, American and Australian language.

⁵⁹¹ Sabrina P Ramet, *The Three Yugoslavias: State-Building and Legitimation, 1918-2005* (Washington, D.C: Woodrow Wilson Center Press, 2006), 36. For the importance of history in successful nation-building, see Anthony D Smith, *The Ethnic Origins of Nations* (Oxford: B. Blackwell, 1987).

⁵⁹² Weber's classic study outlines both the limits of this approach as well as its remarkable successes. Eugen Weber, *Peasants into Frenchmen: The Modernization of Rural France, 1870-1914* (London: Chatto and Windus, 1977).

⁵⁹³ Mark Biondich, *Stjepan Radić, the Croat Peasant Party, and the Politics of Mass Mobilization, 1904-1928* (Toronto: University of Toronto Press, 2000).

government remained woefully unrepresentative of the diversity of the society over which they governed, with Serb cadre dominating the upper levels of administration.⁵⁹⁴

The government's incompetent handling of the national question not surprisingly antagonized members of smaller nations. This was especially true of the Croats, some of whom turned to extremist political options. In 1928, a small group of nationalists formed a radical political organization dedicated to the establishment of an independent Croat state. In keeping with the political trends of inter-war Europe, this organization, later to become known as the Ustasha movement, was unambiguously fascist. Its members were dedicated to violence in the pursuit of their goals, and they embraced a strongly chauvinistic anti-Serbian ideology.⁵⁹⁵ It is important to note that the Ustashe were a largely marginal organization during this time, though the impending war would rapidly increase their profile and political importance.

Another radical political organization that was to shape the future of the country was the Communist Party of Yugoslavia (CPY). The CPY was banned in 1921, almost a decade prior to the establishment of the royal dictatorship in 1929 and thereafter continued as an underground organization.⁵⁹⁶ Its clandestine activity would make it the only political organization capable of mounting effective anti-fascist resistance during World War II. During the inter-war period, the Party vacillated with respect to the national question, alternately supporting Yugoslav unity and following the Comintern's dictates in advocating for the country's breakup.⁵⁹⁷ In the run-up to World War II, it

⁵⁹⁴ Banac, *The National Question in Yugoslavia*, 217.

⁵⁹⁵ Bogdan Krizman, *Ante Pavelić i Ustaše* (Zagreb: Globus, 1978); Jozo Tomasevich, *War and Revolution in Yugoslavia, 1941-1945: Occupation and Collaboration* (Stanford: Stanford University Press, 2001).

⁵⁹⁶ Aleksa Djilas, *The Contested Country: Yugoslav Unity and Communist Revolution, 1919-1953* (Cambridge: Harvard University Press, 1991), 79–80.

⁵⁹⁷ Djilas, *The Contested Country*.

finally settled on support for the common state, though Party leaders argued that the country had to be reorganized on principles of national equality, recognition of national differences, and their accommodation within a federal constitutional framework.⁵⁹⁸ These principles remained with the CPY throughout World War II and endured into the post-war period.

Yugoslavia entered the War in 1941. It was defeated within days, and subsequently dismembered by the occupying powers.⁵⁹⁹ In addition, German and Italian governments agreed on the establishment of the Independent State of Croatia which included most of the territory of today's Croatia and Bosnia. The leadership of this state was given to the Ustashe who quickly proceeded to implement their program of national 'purification.' The Serbs, who constituted approximately a quarter of the new state's population, were viewed by the Ustasha government as the most pressing political problem, possibly endangering the state's recently won independence.⁶⁰⁰ The Ustasha regime chose to address this 'problem' through an all-out campaign of ethnic cleansing and genocide.⁶⁰¹

This choice proved to be far-reaching. Instead of securing an ethnically pure Croatia/Bosnia, the Ustasha regime unwittingly provided the main ingredient for the Communist-led Partisan movement. The Serbs in the Independent State of Croatia were left with little choice but to take to the hills and fight. While some joined the royalist,

⁵⁹⁸ Ibid., 97.

⁵⁹⁹ Tomasevich, *War and Revolution in Yugoslavia, 1941-1945*.

⁶⁰⁰ Michele Frucht Levy, "'The Last Bullet for the Last Serb': The Ustasa Genocide against Serbs: 1941-1945," *Nationalities Papers* 37, no. 6 (2009): 809.

⁶⁰¹ Ibid., 810. The regime also forced a large number of Orthodox Serbs to convert to Catholicism. Given the close alignment of national and religious identities in the Balkans, it was hoped that religious conversions would amount to transformations of national identity as well. This was the third prong of the government's policy of eliminating Serbs as a political fact in Croatia and Bosnia. Mark Biondich, "Religion and Nation in Wartime Croatia: Reflections on the Ustaša Policy of Forced Religious Conversions, 1941-1942," *The Slavonic and East European Review* 83, no. 1 (2005): 71-116.

Serb-based Chetnik movement, many ended up in the Partisan units.⁶⁰² The Communist resistance movement grew stronger precisely because, in the general inter-ethnic carnage, it offered a multi-national alternative. The Partisan army was the only domestic combatant with no particularistic nationalist platform. It also offered an attractive political program, a federal Yugoslavia, with the promise of social reforms after the war.⁶⁰³ This combination of national and social liberation held widespread appeal, which explains in part why the Communists emerged as the dominant military and political force by the end of the war.

Thus, ironically, the anti-Yugoslav Ustashe gave the Yugoslav idea a new lease on life by pushing many Croatian and Bosnian Serbs into the hands of the Communists. At the same time, however, the war and the accompanying genocide also made the national question more intractable. Serbs were now added to the list of Yugoslav nations with justified feelings of resentment and bitterness. The CPY leadership needed to maintain a precarious balance between the demands of Serb and non-Serb populations, while building a state and developing a woefully impoverished country which was one of the most war-devastated in Europe.⁶⁰⁴ The strategies developed over the first five post-war years to deal with these challenges would shape the rest of Yugoslavia's history. The

⁶⁰² On the Chetniks, see Jozo Tomasevich, *The Chetniks* (Stanford: Stanford University Press, 1975).

⁶⁰³ John B Allcock, *Explaining Yugoslavia* (New York: Columbia University Press, 2000), Ch. 7; Walker Connor, *The National Question in Marxist-Leninist Theory and Strategy* (Princeton: Princeton University Press, 1984), Ch. 6; Djilas, *The Contested Country*, 151. For an incisive analysis explaining the political and military success of Yugoslav Partisans, see Bogdan Denitch, "Violence and Social Change in the Yugoslav Revolution: Lessons for the Third World?" *Comparative Politics* 8, no. 3 (1976): 465-478.

⁶⁰⁴ For a quantitative overview of wartime destruction in Yugoslavia, see Savezni zavod za statistiku, *Yugoslavia Thirty Years After Liberation and the Victory Over Fascism: 1945-1975* (Belgrade: Federal Statistical Office, 1976).

elites' approach to economic development would ultimately have a profound effect on the nature of accommodation of national differences.⁶⁰⁵

Yugoslav communists were never blind followers of Soviet dictates, even before the break with Stalin in 1948.⁶⁰⁶ Well before parting ways with the Soviets, Yugoslav communists were considering alternative approaches to governing their country. They had already considered ways to avoid the over-bureaucratization of the economy, and started contemplating decentralization of operational management of enterprises very early on.⁶⁰⁷ They were equally pragmatic in their approach to agriculture, trying not to antagonize the peasants where it was not absolutely necessary. Thus, during the nationalization waves of 1946 and 1948, property confiscation was not extended to peasant holdings.⁶⁰⁸ The Soviets found the most vexing proof of Yugoslavia's independent inclinations in the government's foreign policy. Without Stalin's consent, Yugoslav leaders considered entering into a Balkan federation with Bulgaria and Albania. They also provided assistance to Greek Communists during the Greek civil war.⁶⁰⁹ Even

⁶⁰⁵ Karlo Basta, "Non-ethnic Origins of Ethnofederal Institutions: The Case of Yugoslavia," *Nationalism and Ethnic Politics* 16, no. 1 (2010): 92-110.

⁶⁰⁶ This has been a fairly standard scholarly portrayal of the CPY. Zimmerman's statement is emblematic of this view: "Throughout the 1945-1948 period, a major theme in Yugoslav behaviour, internationally and domestically, was that it revealed its autonomy by being more Catholic than the Pope, to wit, more Stalinist than Stalin." William Zimmerman, *Open Borders, Nonalignment, and the Political Evolution of Yugoslavia* (Princeton: Princeton University Press, 1987), 15.

⁶⁰⁷ Susan L Woodward, *Socialist Unemployment: The Political Economy of Yugoslavia, 1945-1990* (Princeton: Princeton University Press, 1995), 68-69.

⁶⁰⁸ Indeed, the only time collectivization was attempted was during Yugoslavia's clash with the USSR and the Cominform. Rather than trying to cozy up to the Soviets, the leadership was attempting to procure enough food in light of the economic blockade imposed by the Soviet Bloc countries. Melissa K Bokovoy, *Peasants and Communists: Politics and Ideology in the Yugoslav Countryside, 1941-1953* (Pittsburgh: University of Pittsburgh Press, 1998).

⁶⁰⁹ Milovan Djilas, *Conversations with Stalin, 1st ed.* (New York: Harcourt, Brace & World, 1962); Jeronim Perović, "The Tito-Stalin Split: A Reassessment in Light of New Evidence," *Journal of Cold War Studies* 9, no. 2 (2007): 32-63.

the establishment of the provisional Yugoslav government in November of 1943 was undertaken without Stalin's approval.⁶¹⁰

The break with the Soviet Union in 1948 was not the underlying cause of the Yugoslav leadership's pursuit of heterodox socialism.⁶¹¹ It did, however, act as a trigger for a systematic re-thinking of the bases of the Yugoslav socialist regime. It paved the way for Yugoslavia's most well-known ideological and institutional innovation: workers' self-management.⁶¹² It also opened the path for Tito's 'third way' policy in international affairs. The third pillar of Yugoslav socialism was the already established federal constitution, the purpose of which was to reassure the non-Serb nations that Serbian domination of Yugoslavia was a thing of the past.⁶¹³ Yet, as noted earlier, most of the power was actually vested in the Central Committee of the CPY.⁶¹⁴ This combination of formal commitment to decentralization and political hypercentralization would prove a source of simmering tensions and political problems throughout the first decade and a half of the country's existence. These troubles only came to a head in the early 1960s, the point at which my analysis begins in earnest. The next section outlines the features of Yugoslavia's political economy relevant for the argument I am making here.

⁶¹⁰ Ivo Banac, *With Stalin Against Tito: Cominformist Splits in Yugoslav Communism* (Ithaca: Cornell University Press, 1988), 12.

⁶¹¹ The break itself had its roots in Yugoslavia's pursuit of independent foreign policy in the Balkans, something that Stalin would not condone. Djilas, *Conversations with Stalin*; Perović, "The Tito-Stalin Split."

⁶¹² Workers' self-management was in time paired with local self-management, or decentralization down to the level of municipal governments. This is a frequently overlooked part of Yugoslavia's institutional structure. George A Potts, *The Development of the System of Representation in Yugoslavia with Special Reference to the Period Since 1974* (Lanham: University Press of America, 1996).

⁶¹³ Djilas, *The Contested Country*, 159; 166–67.

⁶¹⁴ Cohen, "Conflict Management and Political Institutionalization in Socialist Yugoslavia: A Case Study of the Parliamentary System."

5.2. Political Economy of Socialist Yugoslavia (Independent Variables)

Relative levels of development

Inequalities in economic and social development between Yugoslavia's North and South have for decades been a matter of common knowledge among experts.⁶¹⁵ These variations have their roots in separate political histories of the two regions. The northern parts of the country were for centuries governed by the Habsburg monarchy, whereas their southern counterparts were subject to Ottoman rule. Both areas were situated in the peripheries of their respective empires.⁶¹⁶ They were also economically peripheral, with the exception of commercial centres, such as Dubrovnik (Ragusa), which served as hubs for wider regional trade networks.

The divergent patterns of imperial rule strongly influenced the subsequent paths to economic development. In the nineteenth century, the Habsburg monarchy had little in common with the institutionally sclerotic despotism of the Ottoman Empire. As Good notes, despite being a laggard when compared to the UK, Germany, and France, Austria-Hungary "was a bona fide member of the single technological community composing Eric Jones' 'European miracle' and 'shared the fact of change' with other members of

⁶¹⁵ Milica Zarkovic Bookman, *The Political Economy of Discontinuous Development: Regional Disparities and Inter-Regional Conflict* (New York: Praeger, 1991); F. E. Ian Hamilton, *Yugoslavia; Patterns of Economic Activity* (New York: Praeger, 1968); Harold Lydall, *Yugoslavia in Crisis* (Oxford: Clarendon Press, 1989); Dijana Pleština, *Regional Development in Communist Yugoslavia: Success, Failure, and Consequences* (Boulder: Westview Press, 1992). The more developed northwest encompassed the republics of Slovenia and Croatia. The rest included Bosnia, Serbia, Montenegro and Macedonia. However, this oversimplifies the issue since some of the less developed republics, such as Serbia, contained more developed units (its northern province of Vojvodina), whereas the more developed Croatia featured long-standing pockets of underdevelopment, such as Lika and the Dalmatian hinterlands. Hamilton, *Yugoslavia; Patterns of Economic Activity*, Ch. 16; Ramet, *The Three Yugoslavias*, 266.

⁶¹⁶ John R Lampe and Marvin R Jackson, *Balkan Economic History, 1550-1950: From Imperial Borderlands to Developing Nations* (Bloomington: Indiana University Press, 1982).

this community”.⁶¹⁷ Eventually, some of Austria-Hungary’s growth trickled down to its South Slav borderlands. For example, the building of a railway link to Austria’s seaport at Trieste helped foster nascent commercialization and small-scale industrialization in Slovenia.⁶¹⁸ The Hungarian government, competing with its Austrian counterpart in the aftermath of the 1867 *Ausgleich*, built a railroad to its own outlet to the sea, the Croatian port city of Rijeka (Fiume). The project helped stimulate limited economic development in Croatia/Slavonia.⁶¹⁹

Even though Slovenia and Croatia were economically backward in comparison to the rest of the Habsburg Empire, their socio-economic conditions were better than those prevailing in the Ottoman South Slavic lands. Under late Ottoman rule, Bosnia, Serbia, Montenegro, and Macedonia were all territories of a state that contemporary political scientists might call predatory.⁶²⁰ The imperial government in Istanbul had little effective political control over the rapacious local elites on which it depended for revenue.⁶²¹ The consequence was that most of the population in these areas tried to avoid this burden, where possible, by opting for subsistence pastoral economy.⁶²² Though commercial

⁶¹⁷ Good, *The Economic Rise of the Habsburg Empire, 1750-1914*, 238.

⁶¹⁸ Lampe and Jackson, *Balkan Economic History, 1550-1950*, 77.

⁶¹⁹ *Ibid.*, 299–300. The reference to Croatia/Slavonia excludes Croatia’s southern province, Dalmatia. Dalmatia was only joined to other Croatian lands by the negotiated deal that created the ‘banovina’ (dukedom) of Croatia in 1939. Dušan Bilandžić, *Hrvatska Moderna Povijest* (Zagreb: Golden marketing, 1999), 106. Though the region was traditionally economically underdeveloped, its stunningly beautiful coast became an asset with the development of mass tourism in the second half of the 20th century. This development exacerbated inter-republican economic differences.

⁶²⁰ For the notion of predatory state, see Peter B Evans, “Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State,” *Sociological Forum* 4, no. 4 (1989): 561-587.

⁶²¹ John R Lampe, “Imperial Borderlands or Capitalist Periphery? Redefining Balkan Backwardness, 1520-1914,” in *The Origins of Backwardness in Eastern Europe: Economics and Politics from the Middle Ages Until the Early Twentieth Century*, ed. Daniel Chirot (Berkeley: University of California Press, 1989), 188–89.

⁶²² *Ibid.*, 189. In addition, the mountainous areas of Bosnia, Serbia, Montenegro and Macedonia had few pockets of productive agricultural land. Thus, geography and politics reinforced one another in preventing the commercial development of most of this region.

agriculture did exist on a small scale, its presence was not a portent of the development of a modern market economy. Serbia's independence, achieved in 1878, did not change things drastically, as the country experienced little in the way of economic progress and modernization.⁶²³ Palairet attributes this outcome in part to the local elites' economic xenophobia.⁶²⁴ Regardless of the causes behind this outcome, areas south of the Sava-Danube line were less economically developed than those to the north.

These historically-conditioned regional differences were made worse by the experience of both world wars. While all the South Slavic lands were hard-hit by World War I, Serbia and Montenegro became battlefields and subsequently also experienced occupation. In his ranking of twenty World War I participant countries, Urlanis listed Serbia and Montenegro as first in terms of overall per capita casualties.⁶²⁵ The material losses were also disproportionately concentrated in these two parts of what would become Yugoslavia.⁶²⁶ World War II told a similar story, though in this case Bosnia—the site of most military operations due to its guerrilla-friendly mountainous terrain—was also affected.⁶²⁷ These deep-seated socio-economic divisions endured throughout the post-World War II period, when they would become highly politically salient. For the purposes of this dissertation, I will point to some key indicators of development for each republic between 1960 and 1980. This covers most of the period analyzed here.

⁶²³ Palairet's data for the first decade of the 20th century show that Serbia lagged behind Bosnia on all major industrial indicators. M. R Palairet, *The Balkan Economies C. 1800-1914: Evolution Without Development* (Cambridge: Cambridge University Press, 1997), 222, Table 8.3.

⁶²⁴ *Ibid.*, 369.

⁶²⁵ B. T.S. Urlanis, *Wars and Population* (Moscow: Progress Publishers, 1971), 210.

⁶²⁶ Jozo Tomasevich, *Peasants, Politics, and Economic Change in Yugoslavia* (Stanford: Stanford University Press, 1955), 226–29.

⁶²⁷ A permanent source of Serbian resentment was the fact that Belgrade was bombed and destroyed both at the outset of the war, by the Germans, and then at its end, by the advancing Soviet troops. Croatia's capital, Zagreb, was by comparison unscathed. The beginning of Emir Kusturica's award-winning 1995 film "Underground" captures this resentment and shows it has survived well past the events that have produced it.

It must be noted that Slovenia and Croatia, by far the most developed parts of Yugoslavia, contained only a minority of the country's population. The two republics were home to approximately 30% of Yugoslavia's citizenry in 1971.⁶²⁸ The Serbs, though the largest group, were never a demographic majority.⁶²⁹ However, since they constituted about 40% of Yugoslavia's population (around twice the second largest group, the Croats), they were often perceived by the non-Serbs as the dominant group.

Slovenia and Croatia, together with Serbia's northern province of Vojvodina, contributed a disproportionate share to Yugoslavia's Gross Social Product (GSP).⁶³⁰ While their share in Yugoslavia's total population hovered around 30%, and was trending downward, their share in the country's GSP was around 40% throughout the two decades following 1960. By contrast, Serbia, home to the largest ethnic group in Yugoslavia, contributed less to Yugoslavia's total GSP than its share in the population. Serbia also scored consistently below the Yugoslav average on a per capita GSP basis.⁶³¹

The per capita GSP statistics are even more telling than the republics' contribution to the aggregate social product. The per capita GSP of the two developed republics was 50% higher than the Yugoslav average.⁶³² During the two decades between 1960 and 1980, their per capita social product actually increased, from 150 to almost 164

⁶²⁸ See Appendix C, Table 1.

⁶²⁹ Appendix C, Table 2.

⁶³⁰ See Appendix C, Table 3. Gross Social Product is generally 10-15% lower than the Western Gross National Product, as it excludes a number of productive activities. Albert Waterston, *Planning in Yugoslavia, Organization and Implementation* (Washington: Economic Development Institute, International Bank for Reconstruction and Development, 1962), 17, fn. 5. However, it suffices for the purposes of this dissertation in demonstrating economic differences among the constituent units of the same country.

⁶³¹ See Appendix C, Table 4. Despite this, Serbia did not have the official status of a less developed republic, and was as such obliged to contribute funds for redistribution to the less developed republics and the Province of Kosovo. Olivera Milosavljević, "Yugoslavia as a Mistake," in *The Road to War in Serbia: Trauma and Catharsis*, ed. Nebojsa Popov and Drinka Gojković (Budapest: Central European University Press, 2000), 59. This was a source of much resentment among the Serbs.

⁶³² Appendix C, Table 4.

per cent of the Yugoslav mean. Slovenia's relative improvement was even more stark than Croatia's, while both fared far better than the less developed republics, whose per capita GSP fluctuated between 74 and 76% of the Yugoslav average during this period. Notwithstanding the periodic attempts to address these pervasive and persistent regional inequalities, republics in socialist Yugoslavia were actually more unequal in the 1980s than they had been in the 1950s.⁶³³ On the other hand, relative figures conceal absolute gains in socio-economic development achieved everywhere, including in the woefully underdeveloped Kosovo.⁶³⁴

Yugoslavia's labour market was characterized by similar patterns of regional inequality. In keeping with its growing acceptance of the market mechanism, the Yugoslav leadership acknowledged open unemployment as an acceptable fact of life as early as the first half of the 1950s. As Woodward's work shows, this atypical decision was part and parcel of economic reforms aimed at producing a more sustainable and rational socialist economy.⁶³⁵ As the Yugoslav official unemployment rate rose from 5% in 1960 to almost 14% in 1980, the less developed republics fared significantly worse than Croatia and Slovenia. Between 1965, the year of the implementation of the major market reform, and 1970, unemployment increased significantly in the less developed republics, whereas the percentage of job seekers in the active population of Croatia and Slovenia remained well below the Yugoslav average.⁶³⁶ Thus, in 1970, Croatia's official unemployment rate stood at 4.9%, and Slovenia's at 3.1%, while the all-Yugoslav

⁶³³ Pleština, *Regional Development in Communist Yugoslavia*, xxviii–xxix.

⁶³⁴ Ramet, *The Three Yugoslavias*, 274.

⁶³⁵ Woodward, *Socialist Unemployment*, Ch. 5.

⁶³⁶ Slovenia actually continued to experience labour shortages throughout this period, and even during the economically disastrous 1980s. *Ibid.*, 339–41.

average was already 8.5%.⁶³⁷ In the sunny south, around 1970, Macedonia and Kosovo exhibited unemployment rates well in excess of 20%.⁶³⁸ Bosnia, the rest of Serbia, and Montenegro fell in between, but all ranked significantly above the Yugoslav mean.

Yet another source of economic inequality stemmed from foreign currency earnings. Obtaining hard currency is always a critical issue in a managed economy with strict monetary controls and no convertibility. In Yugoslavia, foreign currency came from three main sources: exports of goods, guest worker remittances, and foreign tourists.⁶³⁹ Between 1960 and 1980, tourism moved from tenth to second place as a source of hard currency for the Yugoslav government.⁶⁴⁰ By the early 1970s, Yugoslavia was already a well-known tourist destination in the West and hosted millions of foreign visitors, primarily from Germany and Austria.⁶⁴¹ Yet this area of economic activity also exacerbated the already existing economic inequalities between Yugoslavia's north-west and south-east. Between 1965 and 1980, Croatia increased its share from 73 to 82% of all arrivals to Yugoslavia.⁶⁴² In 1980, together with Slovenia, Croatia hosted close to 90% of all foreign visitors, earning most of Yugoslavia's hard currency income from tourism. It is therefore little wonder that the debate over who gets to retain foreign currency generated by this trade became so heated in the late 1960s.⁶⁴³

⁶³⁷ See Appendix C, Table 5.

⁶³⁸ Ibid.

⁶³⁹ Yet another important source were foreign currency remittances, sent back to Yugoslavia by hundreds of thousands of its citizens at work abroad. Carl-Ulrik Schierup, *Migration, Socialism, and the International Division of Labour: The Yugoslavian Experience* (Aldershot: Avebury, 1990).

⁶⁴⁰ John B. Allcock, "Yugoslavia's Tourist Trade: Pot of Gold or Pig in a Poke?" *Annals of Tourism Research* 13, no. 4 (1986): 570.

⁶⁴¹ Ibid.

⁶⁴² See Appendix C, Table 6.

⁶⁴³ John R. Lampe, *Yugoslavia as History: Twice There Was a Country*, 2nd ed. (Cambridge: Cambridge University Press, 2000), 307.

The other source of hard currency was exports of manufactured and unprocessed goods. Statistics on hard currency earned by each republic from exports are difficult to come by. As an imperfect proxy, I use figures on what Zarkovic calls exports of ‘highly manufactured goods.’⁶⁴⁴ A glance at the trends in the export of these goods reveals a familiar pattern. Croatia, and particularly Slovenia, exported the lion’s share of Yugoslavia’s ‘highly manufactured goods’. Disaggregated statistics began to be published only in the late 1970s, so the data are limited, but it seems that the two richer republics went from exporting 50 to about 43% of all such goods leaving Yugoslavia between 1977 and 1984.⁶⁴⁵ During this period, Serbia managed to export the value of goods commensurate with its overall weight in the Yugoslav economy, whereas all other constituent units underperformed on this score.

The picture that emerges is thus fairly clear. The most autonomy-minded republics, Slovenia and Croatia, were also the most developed, whereas the republic that was home to most of the largest ethnic group, Serbia, was relatively less developed. The other republics were worse off still. Yet, a closer examination of the political economy of Yugoslavia reveals a more nuanced story. For example, parts of Croatia were also fairly underdeveloped, a point not lost on the Croatian political leadership when debating who should receive federal development funds.⁶⁴⁶ Furthermore, Serbia’s northern province, Vojvodina, had long constituted one of the more developed regions of Yugoslavia. Also, Belgrade, the capital of both Serbia and Yugoslavia, was an important pole of economic growth. Still, overall patterns of economic development show a fairly clear division

⁶⁴⁴ Milica Zarkovic, “The Economic Basis of Regional Autarchy in Yugoslavia,” *Soviet Studies* 42, no. 1 (1990): 101.

⁶⁴⁵ Appendix C, Table 7.

⁶⁴⁶ Sabrina P Ramet, *Nationalism and Federalism in Yugoslavia, 1963-1983* (Bloomington: Indiana University Press, 1984), 177.

between the more developed north (Slovenia, Croatia, and Vojvodina) and the less developed south (the rest of Serbia, Bosnia, Montenegro, and Macedonia). I now examine Yugoslavia's strategies of governance.

Yugoslavia's Strategy of Governance

Between 1960 and 1984, Yugoslavia's elites employed two distinct strategies of governance. During the mid-1960s, Yugoslavia moved in the direction of a laissez-faire, market-oriented paradigm. In 1971, nationalist tensions flared up in Croatia. The resulting political crisis was instrumentalized by communist traditionalists at all Party levels in an effort to revert to a form of decentralized statism. Yet, even during the first period, the Yugoslav leadership had to balance its pursuit of economic efficiency with the promise of social equality, the hallmark of socialist regimes. Excessive social and territorial inequalities were tolerated only briefly. They were the limit both of Yugoslavia's market socialism, as well as its accommodative capacity.

Laissez-faire Socialism

At the root of Yugoslavia's heterodox approach to socialism was its leadership's profound suspicion of the overgrown, bureaucratic state. That suspicion predated the Tito-Stalin split of 1948 and grew as the problems of Yugoslavia's socialist system accumulated over the next two decades. Yugoslav leadership was well aware of the pathologies of a strong state with no checks and balances on its power.⁶⁴⁷ In this respect, Yugoslav communists were following Trotsky's critique of socialist bureaucracy. Trotsky

⁶⁴⁷ For example, Edvard Kardelj, Yugoslavia's main constitutional architect, noted in a speech in 1952 that strong representative institutions were the worst possible organizational form for a single-party regime. The belief was that such institutions would become so politically centralized that they would stifle any local initiative. Rusinow, *The Yugoslav Experiment 1948-1974*, 67.

noted that the most pernicious effects of bureaucracy would be felt precisely in a socialist state, where no independent actors, such as a thriving private sector, existed to check governmental power.⁶⁴⁸ Socialist bureaucracy was therefore a potentially parasitic force, which could compromise the progressive character of socialist revolutions.⁶⁴⁹ The famous Yugoslav dissident and high ranking Party official, Milovan Djilas, later took the next logical step and labelled this bureaucracy ‘the new class.’⁶⁵⁰

The split with the Soviet Union in 1948 freed the Yugoslav leadership to develop more fully and systematically an alternative vision of socialism. While most scholars have emphasized workers’ self-management as the distinguishing characteristic of Yugoslavia’s reform socialism, in fact self-management was only one institutional manifestation of a more pervasive, though gradual, shift – from state-socialism to ‘society-led’ socialism.⁶⁵¹ The central goal of the Yugoslav ‘anti-statist’ approach to governance was to undercut the political and economic monopoly of the central Party and state organization. I emphasize that initially this was only the stated ambition of the central Party leadership. The actual implementation of this approach was both gradual and incomplete, as the leadership struggled to reconcile its short-term needs⁶⁵², which required direct control of economy and society, with its long-term goals, which necessitated the relinquishing of that control.

The new approach was first articulated in public by Milovan Djilas, in a speech delivered to university students in Belgrade in March of 1950. Djilas pointed out the

⁶⁴⁸ Leon Trotsky, *The Revolution Betrayed* (Mineola: Dover Publications, 2004), 187.

⁶⁴⁹ *Ibid.*, 188.

⁶⁵⁰ Milovan Djilas, *The New Class; An Analysis of the Communist System* (New York: Praeger, 1957).

⁶⁵¹ In analyzing Yugoslav socialism, it is often easier to understand what the Yugoslav communists were against than what they were in favour of.

⁶⁵² Such as the crash program of industrialization, or, for example, the need to supply expertise where none existed (sending doctors from more to less developed parts of the country, where they would not otherwise have went). Woodward, *Socialist Unemployment*, Ch. 3.

Janus-faced nature of the socialist state: on the one hand, it served to eliminate the bourgeois political and economic order, but on the other, it threatened socialism itself through bureaucratization.⁶⁵³ Among a number of negative effects of state socialism, Djilas noted its stifling effect on worker initiative and productivity, and thus on long-term economic development. The solution to the rigidities of statist socialism was found in the “ever broader and bolder drawing of the masses into the administration of the state and economy,” and the parallel reduction of the role of the state in those domains.⁶⁵⁴

In the economic sphere, this meant greater worker participation in decision-making, as well as increased enterprise autonomy. Successive economic reforms aimed at fulfilling this goal were enacted over the first half of the 1950s. Firms became responsible for developing their own production schedules, and were free to enter independently into sales and purchase contracts.⁶⁵⁵ In 1950, a new law introduced workers’ councils, granting these institutions decision-making control over the disposal of enterprise profits, primarily in terms of division of enterprise income between wages and reinvestment.⁶⁵⁶ Competition among enterprises and the profit motive were officially acknowledged as legitimate ways to increase the productivity of the Yugoslav economy.⁶⁵⁷ On the other hand, the market for labour and other key inputs remained regulated by the state, and strategic investment decisions remained in the hands of the political leadership.

⁶⁵³ Milovan Djilas, *On New Roads of Socialism; Address Delivered at the Preelection Rally of Belgrade Students, March 18, 1950* (Belgrade: Jugoslovenska Knjiga, 1950), 9.

⁶⁵⁴ *Ibid.*, 31.

⁶⁵⁵ Benjamin Ward, “The Firm in Illyria: Market Syndicalism,” *The American Economic Review* 48, no. 4 (1958): 567.

⁶⁵⁶ *Ibid.*, 569.

⁶⁵⁷ Deborah D Milenkovitch, *Plan and Market in Yugoslav Economic Thought* (New Haven: Yale University Press, 1971), 107. For a good overview of the Yugoslav system of self-management, see Branko Horvat, “Yugoslav Economic Policy in the Post-war Period: Problems, Ideas, Institutional Developments,” *The American Economic Review* 61, no.3 (1971): 71-169.

In the political domain, decentralization of power to local communes (regional districts and municipalities) was expected to make the system more responsive to the needs of the general population. The 1958 Party Program reveals the logic behind local decentralization. The authors of the Program argued that the traditional hierarchical rigidity of communist organization tended to make the government unresponsive, since it weakened the communists' "sense of responsibility towards the masses."⁶⁵⁸ By devolving a number of political functions to local governments, the party was supposed to "[protect] itself from bureaucracy and *political isolation*."⁶⁵⁹ The authors argued that local self-governance gave individuals an incentive to 'personal initiative', as people's quality of life would come to depend directly on their own efforts in improving their communities.⁶⁶⁰ Strengthening the local institutions of governance was also supposed to reduce the arbitrary power of the central party and state institutions.⁶⁶¹ These reforms led to an administratively decentralized country, but one in which most key political and economic decisions were still taken at the central party and state level. As long as the economy was performing relatively well, the central leadership could tolerate the contradictions between the rhetoric of 'de-etatization' and the reality of a still fairly statist and centralized polity.⁶⁶²

⁶⁵⁸ Savez komunista Jugoslavije, *The Programme of the League of Yugoslav Communists; Adopted by the VII. Congress of the League of Yugoslav Communists Held from 22 to 26 April, 1958 in Ljubljana* (Beograd: Edition Jugoslavija, 1958), 247.

⁶⁵⁹ Ibid., 247–48; emphasis added.

⁶⁶⁰ Ibid., 142.

⁶⁶¹ Potts, *The Development of the System of Representation in Yugoslavia with Special Reference to the Period Since 1974*, 104.

⁶⁶² During the 1950s, the Yugoslav economy was among the fastest growing in the world. Between 1953 and 1956, it grew at 7.5% per year, and between 1957 and 1961 at an even more impressive 10.6% per year. David A Dyker, *Yugoslavia: Socialism, Development, and Debt* (London: Routledge, 1990), 43, Table 3.1.

By the early 1960s, however, the existing economic model sputtered, prompting the Executive Committee of the League of Communists of Yugoslavia to call a meeting to discuss this strategic challenge.⁶⁶³ The session took place in March of 1962, and produced a split among the top leadership over the best way to address the country's economic slow-down.⁶⁶⁴ In its search for a way out of the impasse, the leadership initiated a debate among politicians and economists.⁶⁶⁵ Two options crystallized as a result of this exchange of ideas. Advocates of the first option proposed a return to a more traditional socialist economy, arguing that the crisis was a result of excessive economic liberalization. They supported increases in state control over enterprises and investment decisions.⁶⁶⁶ Those in favour of the second option believed that Yugoslavia's economic problems were rooted in excessive influence of the state in the economy. They argued that market forces should be given freer rein in the interest of greater economic efficiency and sectorally balanced development.⁶⁶⁷ Ultimately, the economic liberals carried the day. Their preferences were partially embodied in the 1965 economic reform which was supposed to give enterprises more freedom over their own investment.⁶⁶⁸ The 1965 economic reform and the accompanying documentation clearly reflect Yugoslavia's

⁶⁶³ Rusinow, *The Yugoslav Experiment 1948-1974*, 110–11.

⁶⁶⁴ Paul Lendvai, *Eagles in Cobwebs; Nationalism and Communism in the Balkans, 1st ed.* (Garden City: Doubleday, 1969), 152; Rusinow, *The Yugoslav Experiment 1948-1974*; Shoup, *Communism and the Yugoslav National Question*, 210.

⁶⁶⁵ This is Rusinow's interpretation. Rusinow, *The Yugoslav Experiment 1948-1974*, Ch. 4. Shoup, on the other hand, believes that the decision to pursue pro-market reforms had already been made in principle. Shoup, *Communism and the Yugoslav National Question*, 210. Rusinow's interpretation seems to be the more credible one as he shows the indecisiveness in the public statements of top officials which reveal the lack of consensus and a painful process of reassessment of the status quo. Indeed, the struggle over the direction of reform continued for the next two years, both among economists and politicians.

⁶⁶⁶ Milenkovitch, *Plan and Market in Yugoslav Economic Thought*, 126; Rusinow, *The Yugoslav Experiment 1948-1974*, 112.

⁶⁶⁷ Rusinow, *The Yugoslav Experiment 1948-1974*, 127; 130; Milenkovitch, *Plan and Market in Yugoslav Economic Thought*, 125–26. The reformists were advocating a departure from the typical socialist obsession with production goods, and reorientation toward the production of consumer articles.

⁶⁶⁸ Milenkovitch, *Plan and Market in Yugoslav Economic Thought*, 175–76; Rudolf Bicanic, "Economics of Socialism in a Developed Country," *Foreign Affairs* 44, no. 4 (1966): 633–650.

move toward a laissez-faire strategy of governance. Nevertheless, as the following discussion will show, many ambiguities remained.

The Resolution of the Yugoslav Federal Assembly on the Basic Guidelines for Further Development of the Economic System, passed in April of 1964, illustrates the new governing orientation of the Yugoslav Party and federal government. It starts by noting that despite the achievements of the Yugoslav economy, further growth in industry and foreign trade had been stifled by “interference on the part of the [federal government] in the form of subsidies, grants, premiums, [as well as the resultant] high taxation of economic organizations.”⁶⁶⁹ The Assembly saw the solution to those problems in a renewed commitment to a socialist market economy. The ‘socially owned’ enterprise would continue to form the basis of this economy. In addition, a greater proportion of financial resources were to be diverted from the administrative apparatus and relinquished to businesses.⁶⁷⁰

A major policy initiative in this direction was the abolition of state-run investment funds and the shift of their financial holdings to banks. Commercial banks, it was hoped, would then help stimulate development through credit policies motivated by the pursuit of profitable investment opportunities, rather than on the basis of political expediency or communist dogma. The Assembly further argued for the lowering of taxes on enterprise income; for a reduction of subsidies to enterprises, as well as weakening of other tools of state-planning; for the elimination of so-called administrative prices, or

⁶⁶⁹ Savez komunista Jugoslavije, “Resolution of the Federal Assembly on the Basic Guidelines for Further Development of the Economic System,” *Yugoslav Survey* 5, no. 17 (1964): 2505.

⁶⁷⁰ *Ibid.*, 2506.

government price controls; and for the gradual liberalization of foreign trade and increased integration into the world economy.⁶⁷¹

At the same time, however, it did not go unnoticed that this paradigmatic shift would disproportionately benefit the more efficient enterprises, and that such enterprises were for the most part located in the more developed republics. In light of this, the Report also briefly mentioned the need to establish a special fund for the financing of the economic development of the less developed parts of Yugoslavia. It also suggested that the federal government would need to find adequate fiscal resources in order to enable these regions and republics to provide public services at an “acceptable level.”⁶⁷² These recommendations represented an important qualification to the overall direction of the reforms. As Rusinow notes, the economic reform would test the will of the Yugoslav leadership to accept class and regional inequalities that they knew would be exacerbated if their vision of laissez-faire socialism were to take full hold.⁶⁷³

The economic reform of 1965 for the most part reflected the goals set out in strategic documents such as the aforementioned Resolution.⁶⁷⁴ In the initial stages, the government abolished the General Investment Fund (GIF).⁶⁷⁵ The GIF had been the main lever of the federal government’s direct control over investment policy. Its elimination was therefore a strong indicator of a change in the strategy of governance. The GIF’s financial resources were transferred to large federal banks. As Rusinow shows, these banks were set up as autonomous enterprises, which were to be directly controlled by

⁶⁷¹ Ibid., 2507–09.

⁶⁷² Ibid., 2510.

⁶⁷³ Rusinow, *The Yugoslav Experiment 1948-1974*, 131.

⁶⁷⁴ Ibid., 176.

⁶⁷⁵ Ibid., 160.

their depositors, mostly other business organizations.⁶⁷⁶ It was hoped that this would place indirect control over investment decisions in the hands of business enterprises, rather than government bureaucracies. (Ibid.) Further changes brought about price deregulation and the reduction of enterprise taxes.⁶⁷⁷ The Fund for the Development of Underdeveloped Regions was also established.

Taken together, these changes amounted to a wholesale shift to a far more laissez-faire approach to economic management and governance. The basic economic unit, the enterprise, was supposed to have far more autonomy in investment and distribution decisions. Companies would also retain more resources than heretofore. The government would remain in charge of strategic economic and social planning, but it would no longer have direct influence over the most significant levers of economic policy, such as investment and prices. This, at least, was the theory and hope among the economic liberalizers.

Statism before and after the Croatian Spring

All the same, Yugoslavia remained a socialist state, with a strong redistributive mandate. However much the common state leadership turned to the market mechanism in the hope of securing the regime's legitimacy through economic growth, countervailing social and political forces reminded it of the original *raison d'être* of socialist governments. As a result, the League of Communists of Yugoslavia (LCY) could

⁶⁷⁶ Ibid., 175.

⁶⁷⁷ Ibid., 176–78.

embrace market-induced social inequalities only to a limited degree without fundamentally changing the nature of the regime.⁶⁷⁸

In fact, throughout the *laissez-faire* period, which was launched in earnest in 1964 and ended in early 1972, the central government was subject to pressures from the less developed republics. Leaders of those republics objected, though often obliquely, to the *laissez-faire* governing strategy, claiming that it would leave them behind in terms of economic development. This was the case both among the core group, the Serbs, as well as among members of other, smaller nations such as Macedonians and Montenegrins. These pressures, which tended to militate against the kind of autonomy sought by the more developed Croatia and Slovenia, are outlined below in the explanatory section.

By late 1971, the wave of nationalism that was sweeping Croatia reached what the central Yugoslav leadership considered dangerous proportions.⁶⁷⁹ The resulting purge of the innermost Croatian leadership, which was both co-opting the extra-party nationalists, and pushing for ‘de-etatization’ and decentralization, was used by the conservative communists to turn back the clock on market reforms. Where official discourse prior to these events often reflected deep concern with statism, bureaucratic interference, and the overgrown federal state, now public statements of high-ranking party officials revealed far more apprehension about the fate of socialism, equality, and redistribution. This was particularly obvious during the Second Conference of the LCY, held in late January of 1972. One federal Party official spoke of the duality of the Yugoslav system of self-management, noting that the state would have a continuing role to play in the

⁶⁷⁸ The Communist Party of Yugoslavia changed its name to the League of Communists of Yugoslavia in 1952, signifying its declared departure from direct management of political affairs of the country.

⁶⁷⁹ For a thorough account, see Burg, *Conflict and Cohesion in Socialist Yugoslavia*.

development of workers' self-management.⁶⁸⁰ Many other participants in the conference paid lip service to de-etatization, but a number of them identified mutual help and solidarity, rather than efficiency and productivity, as underlying principles of self-management.

The Constitution of 1974, which enshrined many of the autonomy gains won by the republics in the late 1960s and early 1970s, also put definitive limits on market freedoms and was, in many respects, a thoroughly statist document. It included the obligation on behalf of the federal government to aid the economic development of the relatively less-developed regions of the federation. Article 258 established the Fund for the Crediting of Less Developed Republics and Provinces, and stipulated that the federal government had the right to issue compulsory bonds to sustain the Fund.⁶⁸¹ The Constitution further mandated that the federal government had to secure funds for those republics and provinces lacking the fiscal capacity to supply an adequate level of public services on their own.⁶⁸² These constitutional changes contributed to the strongly redistributive character of the Yugoslav state, which the governments of its more developed republics regarded as problematic until the very end.

Quantitative indicators of the Yugoslav state's increased statism in the 1970s are not easy to find. Yugoslavia's statistics covering total public spending and revenues are notoriously difficult to pin down, in part due to frequent institutional reforms. For instance, in the mid 1970s, many government functions were transferred to the so-called

⁶⁸⁰ Draza Markovic in Hrvatski Drzavni Arhiv (hereafter HDA), Zagreb, Fond 1220D (League of Communists of Croatia), Box 4.1 (5792), transcript of the Second day of work of the Second conference of LCY, dated January 26, 1972, p. 65/1.

⁶⁸¹ Yugoslavia, *The Constitution of the Socialist Federal Republic of Yugoslavia* (Belgrade: Dopisna Delavska Univerza, 1974), 210.

⁶⁸² *Ibid.*, 210.

‘self-managed communities of interest’, which were tasked with the provision of a range of public goods.⁶⁸³ Statistics on total public spending from 1960 to 1980 are inconsistent. Nevertheless, the share of ‘means for common and general consumption’ in the national income of Yugoslavia actually increased between 1970 and 1978, from 45% to 49%.⁶⁸⁴ This suggests a still high, and growing, proportion of public spending on social and other government services. In fact, overall social spending increased between 1973 and 1978.⁶⁸⁵ More research would be necessary to determine exactly how redistributive this spending was, but given the higher rates of unemployment in the less developed parts of the country, one can assume that a significant proportion of public spending took the territorially redistributive form. Slovenian and Croatian denunciations of continued redistribution suggest the same. This issue is addressed in the last section of this chapter.

In sum, while the Yugoslav leadership experimented with *laissez-faire* socialism in the second half of the 1960s, it was subject to strong ideological and political pressures to maintain a statist approach to governance. Once the power of the economic liberals was broken in the early 1970s, the federal government reverted to a heterodox form of statism, which, though decentralized, nevertheless placed redistributive pressure on the common state government.

5.3. Assessing Accommodation in Yugoslavia (Dependent Variable)

By the early 1960s, Yugoslav republics had achieved a modest degree of *political autonomy* via administrative decentralization. Constitutional amendments enacted in

⁶⁸³ Savezni zavod za statistiku, *Trideset Godina Samoupravnog Razvoja Jugoslavije, 1950-1980: Statistički Prikaz* (Beograd: Savezni zavod za statistiku, 1981), 60.

⁶⁸⁴ Ibid.

⁶⁸⁵ See Appendix C, Table 8.

1953 created a number of republic-level administrative agencies, gains which were solidified in the 1956 administrative reforms.⁶⁸⁶ As Rusinow notes, these institutional reforms placed a number of administrative levers in the hands of republican and local elites, including the ability to dispense patronage in the form of jobs in enterprises, banks, and social services.⁶⁸⁷ Changes to the institutional architecture during this decade also resulted in the creation of a number of new republic-level institutions: a second legislative chamber, executive councils, and republican supreme courts. The 1956 administrative reforms further increased the scope and size of republican administrations.⁶⁸⁸

Furthermore, the Constitutional Law of 1953 granted the constituent units a degree of formal legislative autonomy. Legislative competencies were divided into three groups: exclusively federal, concurrent federal-republican, and exclusively republican. Republics had the right to make laws in areas such as education, culture, public health, and social policy, and were able to co-legislate in such policy areas as economic planning, the establishment of companies, infrastructural development, and so on.⁶⁸⁹

On the other hand, the political autonomy of republics was curtailed by the nature of the party system, which was still hierarchical, and where decisions continued to be subject to the iron discipline of ‘democratic centralism.’⁶⁹⁰ In addition, the *fiscal autonomy* of republics was very narrow. The federal government made all of the most

⁶⁸⁶ Potts, *The Development of the System of Representation in Yugoslavia with Special Reference to the Period Since 1974*, 109–10.

⁶⁸⁷ Rusinow, *The Yugoslav Experiment 1948-1974*, 146–47.

⁶⁸⁸ Potts, *The Development of the System of Representation in Yugoslavia with Special Reference to the Period Since 1974*, 109–110.

⁶⁸⁹ “Federal System in Yugoslavia,” *Yugoslav Survey* 1, no. 1 (1960): 3.

⁶⁹⁰ April Carter, *Democratic Reform in Yugoslavia: The Changing Role of the Party* (Princeton: Princeton University Press, 1982). Democratic centralism is the organizational principle whereby differences of opinion are tolerated until a decision is made. After the leadership agrees on a decision, no further dissent is allowed.

important investment decisions, and it also determined both the types of taxes that could be levied by lower levels of government, as well as the rates that could be applied.⁶⁹¹ Furthermore, most republican revenue was granted and decided on by the centre. This was the institutional context within which the assertive Croatian and Slovenian political elites began staking out their claims for greater republican autonomy. Their early efforts in this direction (in the late 1950s), centred on grievances about the economic exploitation of these two republics within the Yugoslav federation.⁶⁹² They argued that Slovenia and Croatia were subsidizing the federal government and the less developed regions to a degree that undermined their own possibilities for economic development. Thus, early demands for greater republican autonomy and influence were couched in the language of economic rights of the republics.

Demands for greater fiscal and policy autonomy were bolstered by nationalist motives by the late 1960s. The Croatian leadership openly voiced claims of this nature in 1968, at the Sixth Congress of the League of Communists of Croatia. The Croatian Party demanded greater republican autonomy; a diminution of federal government powers; and more explicit recognition of the separate national character of the constituent republics.⁶⁹³ In other words, the demands of the Croatian political leadership combined economic and national aspirations. It was only by couching their nationalist demands in the language of de-etatization that the Croatian leadership could hope to win support of the central party leadership for decentralization.⁶⁹⁴

⁶⁹¹ "Financing Socio-Political Units: 1961-1967," *Yugoslav Survey* 9, no. 2 (1968): 60.

⁶⁹² Bilandzić, *Hrvatska Moderna Povijest*, 402; 444.

⁶⁹³ Dusan Bilandzić, *Povijest izbliza: Memoarski zapisi 1945 - 2005* (Zagreb: Prometej, 2006), 68.

⁶⁹⁴ Basta, "Non-ethnic Origins of Ethnofederal Institutions."

During the second half of the 1960s, the Yugoslav polity was transformed from a fairly centralized federation into a confederation. In terms of political autonomy, a significant degree of decentralization occurred both in the party system and in the intergovernmental sphere. Whereas in the early 1960s, the federal League of Communists controlled the political appointments and party programs of the Republican Party organizations, the situation at the outset of the 1970s was quite different. The VIII Congress of the LCY, held in 1964, changed the order of federal- and republic-level Party congresses, so that the republic-level congresses preceded the federal one.⁶⁹⁵ Before the VIII congress, the federal Party was dictating the decision-making agendas for republican Party congresses; now, after the reforms, the situation became reversed. Party platforms of the republics would become benchmarks from which the federal Party program would be devised.⁶⁹⁶ The power of appointing higher- and middle-ranking functionaries also passed to Party organizations in the republics.⁶⁹⁷ As Rusinow remarks, the seat of political power in effect shifted away from the federation and toward the republics, where the most powerful political positions were now to be found.⁶⁹⁸ By the early 1970s, “LCY policy was usually based on compromise between republics, or else decisions were deferred.”⁶⁹⁹

The intergovernmental sphere was transformed in a similar manner. Governments of the constituent republics gained a great deal of political autonomy, as well as influence over the federal government. This process began with the constitutional reforms in 1967, continued with the constitutional Amendments in 1971, and culminated in the

⁶⁹⁵ Carter, *Democratic Reform in Yugoslavia*, 55.

⁶⁹⁶ Rusinow, *The Yugoslav Experiment 1948-1974*, 227–28.

⁶⁹⁷ *Ibid.*, 227–28.

⁶⁹⁸ *Ibid.*

⁶⁹⁹ Carter, *Democratic Reform in Yugoslavia*, 59.

Constitution of 1974.⁷⁰⁰ The outcome of the constitutional reforms was the growing influence of the upper chamber of the Federal Parliament, which was comprised of the appointed representatives of the republics. In 1968, the Chamber of Nationalities (subsequently the Chamber of Republics and Provinces) acquired control over all policy areas under the jurisdiction of the Federal Assembly.⁷⁰¹ Thus, even though the republics already exercised substantial autonomy over a number of policy areas such as education, culture, and social services,⁷⁰² they now secured greater influence over all policy areas falling under the purview of the federal government as well. In addition, decision-making in the Chamber of Republics became subject to unanimity procedure, increasing republican influence even further.

Fiscal relations between the federal and republican governments also changed in favour. With the 1965 reform, the republics gained the right to set their own tax rates, particularly in the field of income taxation.⁷⁰³ Most important, the 1971 constitutional amendments finally deprived the federal government of its influence over investment policy, as the funds previously managed by the large federal banks were transferred to the republics.⁷⁰⁴ This trend toward greater decentralization and confederalization was partially reversed in 1971/72. As late as 1971, Krste Crvenkovski, a high-ranking party official, was able to say that Yugoslavia has “evolved to a stage at which it is no longer thinkable that a republican Party leadership could be removed by the federal Party

⁷⁰⁰ Rusinow, *The Yugoslav Experiment 1948-1974*; Cohen, “Conflict Management and Political Institutionalization in Socialist Yugoslavia: A Case Study of the Parliamentary System,” 130–51.

⁷⁰¹ Cohen, “Conflict Management and Political Institutionalization in Socialist Yugoslavia: A Case Study of the Parliamentary System,” 132.

⁷⁰² Potts, *The Development of the System of Representation in Yugoslavia with Special Reference to the Period Since 1974*, 110.

⁷⁰³ “Financing Socio-Political Units: 1961-1967,” 60.

⁷⁰⁴ “Formation and Transformation of State Capital under the System of Expanded Reproduction,” *Yugoslav Survey* 19, no. 2 (1978): 90.

centre.”⁷⁰⁵ The statement was reflective of a comprehensive change not only in the political structure of Yugoslavia, but also in the political culture of the country.

In a matter of months, events would prove Crvenkovski wrong. In December of 1971, President Tito purged the top leadership of the Croatian party. The reason lay in the Croat leaders’ willingness to ride the wave of Croatian nationalism in order to pressure other republics and the federal centre into ever deeper decentralizing reforms.⁷⁰⁶ While it is tempting to note that this reversal of policy by Tito was proof that the reforms of the 1960s were only window-dressing, and that the reversal of 1971/72 was a return to ‘real’ communist politics, it would be an exaggeration to do so. Without Croatian nationalist mobilization, and the threat that it presented to the unity of the state, it is unlikely that such obviously extra-constitutional action would have been taken.⁷⁰⁷

Still, the 1971/72 purges did not result in extensive reduction of the autonomy of the republics. The federal Party leadership attempted to reverse decentralization in the sphere of party politics, with one segment of the central Party leadership insisting on reverting to an earlier form of a vertically integrated party. These attempts were only partially successful.⁷⁰⁸ The party system was by this point already confederalized, making full-scale recentralization both difficult and politically dangerous.⁷⁰⁹ On the other

⁷⁰⁵ Rusinow, *The Yugoslav Experiment 1948-1974*, 196.

⁷⁰⁶ Burg, *Conflict and Cohesion in Socialist Yugoslavia*, Ch. 3; Rusinow, *The Yugoslav Experiment 1948-1974*, Ch. 7.

⁷⁰⁷ Counterfactuals are notoriously tricky, but it is quite likely that, without the purges of the 1971/72, Yugoslavia would have been far better equipped to make a shift to a laissez-faire strategy of governance in the aftermath of Tito’s death. The purges sidelined competent politicians with a great deal of legitimacy not only in Croatia, but also in Serbia, Macedonia and Slovenia.

⁷⁰⁸ Burg, *Conflict and Cohesion in Socialist Yugoslavia*; Carter, *Democratic Reform in Yugoslavia*; Rusinow, *The Yugoslav Experiment 1948-1974*.

⁷⁰⁹ Any attempts at such recentralization would have fed the already palpable resentment among the Croatian political elites and general population.

hand, the confederal features of intergovernmental relations were actually entrenched in the 1974 Constitution.

In the second half of the 1970s and the early 1980s, the central government attempted to reduce the autonomy and influence of the republics. The reasons for this are discussed in the following section. At this point, it should suffice to mention that these attempts at reduction of constituent unit autonomy were made in the sphere of fiscal and economic policy. The conflict over the redistribution of fiscal resources continued throughout the 1970s and into the 1980s. Croatia and, to a lesser extent, Slovenia persistently attempted to minimize their fiscal contributions to less developed republics and the federal budget, while the federal government and most of the less developed republics pushed in the opposite direction.⁷¹⁰ Since the redistributive mandate was constitutionally entrenched,⁷¹¹ the less developed republics and the federal government would have had the upper hand over Slovenia and Croatia, had each republic not had veto power over a full range of federal decisions.⁷¹² This meant that the more developed republics could block the implementation of statist policy solutions. Had the Yugoslav institutions not been so veto-laden,⁷¹³ it is quite likely that fiscal and policy autonomy of

⁷¹⁰ Burg, *Conflict and Cohesion in Socialist Yugoslavia*, 277–78; Ramet, *Nationalism and Federalism in Yugoslavia, 1963-1983*, 196. In the second half of the 1970s, inter-republican conflict about how best to approach the reduction of regional economic disparities intensified. At stake was the amount of financial resources to be placed at the disposal of the Fund for the development of the less developed republics. During these clashes, the less developed republics and Serbia consistently opposed Croatia and Slovenia. Burg, *Conflict and Cohesion in Socialist Yugoslavia*, 282–90.

⁷¹¹ *Ibid.*, 278.

⁷¹² Pleština, *Regional Development in Communist Yugoslavia*, 111.

⁷¹³ For instance, either a confederal system with some sort of qualified majority voting for the constituent units (as in the EU), or strictly dual federalism (where the central government is autonomous of the constituent units) would have placed the more developed republics in a precarious position. Their autonomy, especially in fiscal and policy domains, would have been far more limited.

the more developed republics would have been far more narrow from 1972 onward than was actually the case.⁷¹⁴

This counterfactual digression suggests that the accommodative capacity of the Yugoslav state was actually lower than the preservation of a relatively high degree of republican autonomy in the late 1970s suggests. As the following section will demonstrate, strong political pressures for a consistent implementation of statist policy priorities emanated from most key institutional players on the Yugoslav political scene. A less idiosyncratic institutional framework would have reflected more faithfully the political preferences of these actors, and the fairly low accommodative capacity of the state.

Ultimately, the deep economic slump that began in the late 1970s and continued throughout the 1980s helped erode the autonomy of the republics. As the crisis worsened, the federal government was forced by circumstances and demands of external debt repayment (if not much else) to assert its will in order to address some of the most troubling aspects of the crisis. Federal Premiers, starting with Veselin Djuranović,⁷¹⁵ strove to shore up the power of the federal government in order to be able perform their tasks effectively.⁷¹⁶ The confederal character of the central government limited the scope of these initiatives as well. Nevertheless, the Federal Executive Council did recentralize control over monetary policy, the banking system, and foreign exchange, reducing the

⁷¹⁴ Dijana Pleština notes that the key reason for persistent economic underperformance of the less developed republics was precisely the lack of resources dedicated to this task. This outcome was facilitated by the confederal institutions which allowed the more developed republics to safeguard their fiscal position. Pleština, *Regional Development in Communist Yugoslavia*, 114–15.

⁷¹⁵ Yugoslav federal premier from 1977 to 1982.

⁷¹⁶ Dejan Jović, *Jugoslavija, država koja je odumrla: Uspon, kriza i pad Kardeljeve Jugoslavije, 1974-1990* (Zagreb: Prometej, 2003), Ch. 4.

influence of republics in these policy domains.⁷¹⁷ This trend toward recentralization had less to do with the causal factors outlined in this thesis than with the sheer need to manage Yugoslavia's economic problems. In fact, it is quite conceivable that, under a more flexible political system, in the 1980s, Yugoslavia would have moved more decisively away from a statist strategy of governance and toward pro-market economic reforms. In the event, it was only Yugoslavia's last premier, Ante Marković, who managed to implement such reforms at the eleventh hour, when the country was already in the late stages of decomposition.

This section provides evidence that the fairly extensive process of decentralization that took place during the 1960s gave way to a more contradictory dynamic during the following decade. Strong pressures for recentralization, particularly in fiscal and economic policy, were not actualized, in large part due to a highly unusual brand of confederalism that the Yugoslav elites developed.⁷¹⁸ Republics retained much of the autonomy that they had won by 1971, centralist pressures notwithstanding. Nevertheless, the actual level of republican autonomy is misleading, since it suggests strong accommodative capacity of the central state. Rather, the central state was emasculated to such an extent that it was not able to carry out the centralizing reforms necessary for it to fulfill its statist mandate. At the same time, the confederal system of governance also precluded a more decisive turn toward a laissez-faire strategy of governance during the 1980s, something that would have been far more conducive to accommodation, and that might have produced a more sustainable polity in the long run.

⁷¹⁷ Woodward, *Socialist Unemployment*, 355.

⁷¹⁸ One is hard pressed to find other examples of confederal polities in the 20th century, with the exception of the European Union and today's Bosnia (which has much in common with the Yugoslav confederation in how little room it allows for cross-national elite mobilization). On the institutional architecture of contemporary Bosnia, see Bose, *Bosnia After Dayton*, Ch. 2.

5.4. Explaining Yugoslavia's Accommodative Capacity

The above-described trends in accommodation have been strongly influenced by Yugoslavia's political economy. For as long as the federal government adopted a *laissez-faire* strategy of governance, greater autonomy for Croatia and Slovenia was politically feasible. The government was willing to accept the increase in regional inequality associated with greater emphasis on the market, and was ready to reduce the overall burden of taxation in the economy. Since Croatia and Slovenia advocated a similar economic program, their strategies were compatible. Ceding fiscal resources to the republics did not threaten to fundamentally undermine the federal government's strategy of reducing public spending in the first place. However, when the federal government reverted to the statist strategy of governance, with its emphasis on greater social and territorial equality, it needed the financial resources produced disproportionately in the more developed regions. As this chapter will show, the confederal institutions at the centre precluded a decisive reduction in republican autonomy.

Laissez-faire Socialism and Accommodation

I have already established that by the early 1970s, Slovenia and Croatia managed to win a substantial degree of autonomy from the federal government. While I am more interested in the underlying, structural factors that made this change possible, I will also outline its proximate causes. The latter provided the impetus for Yugoslavia's decentralization, but the former influenced the extent of republican autonomy and its long-term sustainability.

The catalyst for Yugoslavia's decentralization during the 1960s can be found in the federal leadership's attempt to manage simultaneously the *national question* and the *question of economic efficiency*. Nationalism reemerged as a political problem for the Yugoslav leadership in the late 1950s and early 1960s. During the 1950s, official policy on the national question was guided by the principle of recognition of separate national identities. At the same time, the policy emphasized ethnic similarity of most of Yugoslavia's population as a legitimate basis for the common state.⁷¹⁹ Non-Serb intellectuals and politicians worried that such an approach would lead to the eventual creation of a Yugoslav identity and the loss of their own national identity.⁷²⁰ Nationalist tensions aroused by these concerns prompted the Yugoslav leadership to reconsider its nationalities policy.

The VII Congress of the LCY in 1958 marked the zenith of socialist Yugoslavism; after the Congress the central leadership reversed direction. Official Yugoslavism fell out of favour to such an extent that for a brief time policy-makers even considered removing the category "Yugoslav" from the census form.⁷²¹ The 1963 Constitution reinforced this shift by including a reference to the right of the 'peoples of

⁷¹⁹ Jović, *Jugoslavija, država koja je odumrla*, 127–28. The Party Programme of the Seventh Congress of the LCY in 1958 contained an entire section dealing with Yugoslav identity. The Party encouraged the creation of "a socialist Yugoslav consciousness, a Yugoslav socialist patriotism, which is not the opposite of but rather a necessary internationalist supplement to democratic national consciousness [...] It is not a question of creating some new "Yugoslav nation" instead of the existing nations. Such Yugoslavism not only does not interfere with the free development of national languages and cultures but, on the contrary, presupposes it." Savez komunista Jugoslavije, *The Programme of the League of Yugoslav Communists; Adopted by the VII. Congress of the League of Yugoslav Communists Held from 22 to 26 April, 1958 in Ljubljana*.

⁷²⁰ Audrey Helfant Budding, "Yugoslavs into Serbs: Serbian National Identity, 1961–1971," *Nationalities Papers: The Journal of Nationalism and Ethnicity* 25, no. 3 (1997): 407; Shoup, *Communism and the Yugoslav National Question*, 68; 189–201.

⁷²¹ Shoup, *Communism and the Yugoslav National Question*, 211.

Yugoslavia' to self-determination, including secession.⁷²² Of course, this was still a step short of granting sovereignty to the constituent republics, but it did signify a break with the previously dominant discourse on the national question.⁷²³ The institutional consequences of this move, of which confederalization would become the most politically salient, would not have materialized had the federal leadership not been concerned with the other key problem, the growing ineffectiveness of the Yugoslav economic model.⁷²⁴

Thus, the other major spur to decentralization was the leadership's commitment to the program of 'de-etatization.' In this sense, the strategy of governance played a role not only as a structural factor explaining the extent of accommodation, but also as a proximate factor, helping explain why the leadership considered decentralization in the first place. As noted earlier, between 1962 and 1964 the supreme leadership of the federal Party had decided to reduce the role of the state in Yugoslav economy and society. I have argued elsewhere that the ultimate goal of this shift was to imbue the regime with a greater degree of legitimacy going forward.⁷²⁵ The leadership believed that the only way to ensure sustained economic growth, one of the key pillars on which the regime's legitimacy rested, was to turn to the market and to cut the inefficient state bureaucracy out of the business of deciding where and how to invest.⁷²⁶ President Tito himself

⁷²² Yugoslavia, *Constitution of the Socialist Federal Republic of Yugoslavia* (Beograd: Sekretarijat saveznog izvršnog veća za informacije, 1963), Article 1.

⁷²³ Shoup, *Communism and the Yugoslav National Question*, 213.

⁷²⁴ Basta, "Non-ethnic Origins of Ethnofederal Institutions." Both Shoup and Rusinow, however, emphasize the leadership's desire to cope with the national question as the key factor behind decentralization. I consider this explanation to be excessively narrow in focus. Rusinow, *The Yugoslav Experiment 1948-1974*, 247; Shoup, *Communism and the Yugoslav National Question*.

⁷²⁵ Basta, "Non-ethnic Origins of Ethnofederal Institutions."

⁷²⁶ One of the foremost Yugoslav leaders, Vladimir Bakarić, noted in the early 1960s that if the economic question remained 'unresolved,' it would exacerbate problems between Yugoslavia's nations. Milka

initially saw the causes of the economic crisis of the early 1960s in excessive decentralization.⁷²⁷ However, he was then shown statistics which demonstrated that the central government still controlled 80% of investment funds, despite formal decentralization.⁷²⁸ Rusinow suggests this revelation led to Tito's conversion to the reformist position. Decentralization therefore promised to satisfy two policy goals at the same time—alleviate the discontent among smaller Yugoslav nations, and ensure greater economic efficiency and political responsiveness.

The market reform of 1965 and all pro-market reforms preceding and following it were, unsurprisingly, resisted by the federal government apparatus, as well as a segment of Serbia's political establishment.⁷²⁹ Aleksandar Ranković, one of Tito's closest collaborators since the war, and the head of the Yugoslav secret police, was ultimately identified as the highest-ranking opponent of liberalizing reforms and was dismissed from his position in 1966.⁷³⁰ His dismissal removed a major obstacle to reform. Indeed, the liberal efflorescence of the Yugoslav political scene is usually attributed to the fall of this still controversial politician.⁷³¹

While the process of decentralization was driven by the legitimacy needs of the regime, the actual extent of devolution and its sustainability were strongly influenced by the two factors I have outlined in this dissertation. The relative distribution of wealth meant that revenue-producing capacity was greatest precisely in the two most autonomy-

Planinc, personal interview, October 3, 2007, Zagreb, Croatia. Thus, material prosperity had implications both for social and national relations.

⁷²⁷ Rusinow, *The Yugoslav Experiment 1948-1974*, 123.

⁷²⁸ *Ibid.*, 123.

⁷²⁹ The Party journal, *Komunist*, flagged Serbia as the centre of anti-reform resistance. *Ibid.*, 181.

⁷³⁰ Ranković was removed on suspicion of abusing his power as the head of the secret service, as well as due to his obstruction of the economic reform. Ramet, *The Three Yugoslavias*, 218.

⁷³¹ Burg, *Conflict and Cohesion in Socialist Yugoslavia*, 41–42. Although Rusinow notes that the parliamentary debates in the federal assembly started resembling their Western, rather than Communist, versions well before this date. Rusinow, *The Yugoslav Experiment 1948-1974*, 152.

minded republics, Slovenia and Croatia. Yet, demands for greater fiscal and policy autonomy of the two wealthy republics were quite compatible with the central elites' strategy of governance. This strategy entailed the 'unburdening' of the economy, primarily by way of reducing taxes on enterprise profits and reducing the government's influence over investment decisions. In other words, autonomy for Slovenia and Croatia was not problematic as long as the central leadership was committed to a strategy of governance which required a decreasing share of fiscal resources supplied by those two republics.

Official Party documents and transcripts of Party meetings between 1965 and 1971 give evidence of the extent of central leadership's dedication to market reforms. Praise for the market mechanism is ubiquitous, as is criticism of rudimentary socialist egalitarianism, derided as 'uravnilovka'.⁷³² As early as the pivotal March meeting of the federal Party Executive Committee in 1962, Edvard Kardelj, Yugoslavia's constitutional architect and a member of President Tito's innermost circle, noted that the market is "not a matter of policy but a law of life. All other paths lead to Stalinism."⁷³³ Subsequent years only saw this attitude strengthen and become entrenched into the official party line. The following statement of a high-ranking party official in 1967 amounts to an implicit attempt to redefine what Yugoslav socialism was all about: "certain developments [related to the market reform of 1965] have made part of our population ask 'what about socialism' and 'what is socialism?' [...] Our primitive understanding of socialist relations has been reduced to statism."⁷³⁴ This statement illustrates the frustration of the central

⁷³² A Russian term for 'levelling off.'

⁷³³ Bilandžić, *Hrvatska Moderna Povijest*, 424.

⁷³⁴ Milentije Popovic, quoted in Arhiv Srbije i Crne Gore (hereafter ASCG) Belgrade, Fond 507 (Central Committee of the League of Communists of Yugoslavia), File 2/32, Transcript from the meeting of the

leadership over lower-level party members' poor understanding of the function of the market in a self-managed economy. The statement of another Party official in the same forum reveals the full extent of the LCY's commitment to laissez-faire socialism:

The process of reaffirmation of the market and of the laws of economics will cause a reaction. We will also have a reaction of statist forces which see the only way out of current problems in more state regulations and administrative measures. We will need the *ideological and political activity of the League of Communists in order to support the laws of the market and of economics*, and in the process supersede the remnants of the old [state-socialist] relations.⁷³⁵

This is a remarkable statement for a Communist party official. What makes it even more remarkable is that, at this point, it constituted the norm among higher-level Party officials.

Extending full political and fiscal autonomy to the republics under these conditions was politically expedient, as shown above. It also did not jeopardize the governing strategy adopted by the central state and Party leadership, which was at this point convinced of the potential of the market to create more efficient and productive socialist enterprises. In fact, the Croatian leadership claimed that decentralization of power, both to enterprises, and to the constituent republics, was supposed to help everyone become more efficient and more prosperous.⁷³⁶ Yet a laissez-faire strategy of governance would prove to be politically problematic for this declaratively socialist regime.

Laissez-faire socialism presented a political challenge for two major reasons. First, it was bound to increase inequality among individuals. This much was accepted by

Commission for the conclusions of the CC LCY about the ideational and political problems of the current phase of the implementation of economic reform, October 25th, 1967.

⁷³⁵ HDA, Zagreb, Fond 1220D (LCC), Box 7.12 (4712), Excerpts from the discussion of the 19th meeting of the Executive Bureau of the Presidency of LCY about the current questions of socio-economic relations, September 29, 1969, p. 13 (emphasis added).

⁷³⁶ Rusinow, *The Yugoslav Experiment 1948-1974*, 249.

the top Yugoslav leadership, as they struggled to explain to the population that this strategy was a necessary short-term price for future prosperity. The other problem was that the negative consequences of economic liberalization would be felt most acutely in the least developed parts of Yugoslavia.

Initially, increased social inequalities among individuals and rising rates of unemployment appeared to have few immediate political consequences. Critiques of the socialist market economy, particularly of its dehumanizing effects on the individual, were articulated by dissident philosophers in the famous journal of Marxist philosophy, *Praxis*. The *Praxis* philosophers lamented the direction in which Yugoslavia was heading. They certainly did not advocate a return to a quasi-Stalinist command economy, which they considered repugnant. Rather, they believed that a humane socialist society ought to transcend exploitative economic (and political) relations once and for all, rather than replacing one form of exploitation (statist-socialist) with another (market-socialist).⁷³⁷

The *Praxis* philosophers articulated the grievances of a good number of people who observed an increasing gap between what they considered to be the promise of socialism and its openly unequal reality. The event that brought popular dissatisfaction into the open was the 1968 student unrest in Belgrade. The students were protesting against the lack of social and economic opportunities for the young, including high and increasing joblessness and inequality, which they viewed as products of market socialism.⁷³⁸ In the Party document issued after the demonstrations, more attention was

⁷³⁷ Mihailo Marković and R. S. Cohen, *Yugoslavia: The Rise and Fall of Socialist Humanism: A History of the Praxis Group* (Nottingham: Bertrand Russell Peace Foundation for Spokesman Books, 1975), 26; William Leon McBride, *From Yugoslav Praxis to Global Pathos: Anti-Hegemonic Post-Post-Marxist Essays* (Lanham: Rowman & Littlefield, 2001).

⁷³⁸ This could be seen, *inter alia*, in the slogans of the demonstrators, such as “work for everyone, bread for everyone”; “enough unemployment!”; “down with the red bourgeoisie”; “we struggle for a better man, not

paid to correcting the problems caused by the economic reforms, though at this point no comprehensive reversal of policy took place.⁷³⁹ Yet, the protests made the central leadership more acutely aware of the perils of pressing for market reforms in a socialist state.

The second problem with the socialist laissez-faire model was that it hit the less developed regions of Yugoslavia particularly hard, an outcome that was not unexpected by politicians in those regions.⁷⁴⁰ The real problem was that the political elites in the less developed republics and in Serbia were not nearly as enthusiastic about the market reforms as their counterparts in Slovenia and Croatia.⁷⁴¹ Pressures on the central government were being exerted not only by centralists within the federal government apparatus, but, just as importantly, by the party and state organizations in the less developed republics. As Burg notes, “The political leaderships of the underdeveloped republics and provinces became advocates of central political institutions capable of forcing the redistribution of resources among the regions.”⁷⁴² After all, the political power of the less developed republics (they were more numerous and, together with Serbia, contained more population than Slovenia and Croatia taken together) was far greater than was their economic power in the common Yugoslav market.⁷⁴³

As a result, laissez faire policies, and consequently the process of decentralization, were tempered by the political need to address the developmental

for a better dinar [Yugoslav currency]” and others. Dennison I Rusinow, *Yugoslavia: Oblique Insights and Observations* (Pittsburgh: University of Pittsburgh Press, 2008), 68.

⁷³⁹ Rusinow, *The Yugoslav Experiment 1948-1974*, 237.

⁷⁴⁰ *Ibid.*, 130–31.

⁷⁴¹ Less developed regions do not always support statist policy paradigms. Historical context is supremely important, as the Spanish case will show. In Spain, statism was so discredited by its association with the Franquist regime that a turn to a fairly liberal economic strategy in the 1980s was initially greeted by most Spaniards (See Chapter 6 in this work).

⁷⁴² Burg, *Conflict and Cohesion in Socialist Yugoslavia*, 56.

⁷⁴³ *Ibid.*

problems of Bosnia, Macedonia, Montenegro, and Kosovo. Serbian political elites also tended to emphasize the need for both territorial redistribution and the alleviation of the excesses of the market through central state influence. Still, they did share with their Croatian and Slovenian counterparts an admittedly less vehement dedication to market economy and economic rationality.⁷⁴⁴ A debate surrounding the ‘Draft of ideo-political attitudes about the continuing development and functioning of the LCY’ is suggestive of the increasing limits to Yugoslav laissez-faire socialism and, by extension, decentralization of power to the constituent republics. The Draft, produced by the federal party Presidency in the second half of 1971, noted strong disagreements among republican party organizations on contemporary political questions. Moreover, the document was remarkably critical of the perceived excesses of economic liberalism in Yugoslav policy practice. The authors of the Draft noted that “the League of Communists must wage the struggle against [...] the understanding that the market economy is in every respect, and automatically, socialist.”⁷⁴⁵ This perception of the problematic character of the Yugoslav market system can be found in both the Montenegrin and Serbian responses to the Draft, but is conspicuously absent from the Slovenian and Croatian replies.

As was to be expected, the response of Montenegro’s Party leadership flagged uneven economic growth as one of the key obstacles to the implementation of the market

⁷⁴⁴ Since 1968, the Serbian leadership, headed by Marko Nikezić and Latinka Perović, was as economically and politically liberal as its counterparts in Croatia. However, unlike the Croatian leaders, Nikezić and Perović did not play on the Serbian national sentiment, considering it inimical to their liberal preferences in politics. Their liberal credentials would nevertheless cost them their positions in late 1972. Slavoljub Đukić, *Slom srpskih liberala: Tehnologija politickih obracuna Josipa Broza* (Beograd: Filip Visnjić, 1990); Ramet, *The Three Yugoslavias*, 244.

⁷⁴⁵ HDA, Zagreb, Fond 1220D, Box 4.1 (5688), Presidency of the LCY – Draft of ideo-political attitudes about the continuing development and functioning of the LCY’. (November 7, 1971), p. 56.

reforms.⁷⁴⁶ The Montenegrin document noted the intensification of social differences in the aftermath of the 1965 reform, observing that this development “compromises the nature of socialist relations and causes justified reactions of the working class, the youth, as well as the broader public.”⁷⁴⁷ The Montenegrin leadership recommended that the LCY find ways to prevent the worsening of social inequalities, including uneven regional development.⁷⁴⁸ For this purpose, it suggested that fiscal policy be used not only for economic, but also for social policy goals.⁷⁴⁹ The document stated explicitly that the prevention of excessive social differences required the “efficient (sic!) realization of the protective functions of the state in this domain.”⁷⁵⁰ The funding for such protective functions would, in the case of the less developed republics, have to come from their more developed counterparts via the federal government.

The contrast with the position of the Slovenian League of Communists could not have been starker. In the Slovenian document, the problem of unequal distribution of wealth was hardly mentioned. Rather, the emphasis was placed on the removal of political obstacles to further implementation of the market reforms.⁷⁵¹ The Croatian response was similar in that it emphasized that social differences were actually a negative side-effect of statism rather than the product of the market mechanism.⁷⁵² In the Croatian document, there was also virtually no mention of the harmful effects of the market reforms.

⁷⁴⁶ HDA, Zagreb, Fond 1220D, Box 4.1 (5688), Opinions and suggestions of the secretariat of the Central Committee of LC of Montenegro about the Draft... (November 3rd, 1971), p. 5.

⁷⁴⁷ *Op. cit.*, 12.

⁷⁴⁸ *Op. cit.*, 13-14.

⁷⁴⁹ *Ibid.*

⁷⁵⁰ *Ibid.*

⁷⁵¹ HDA, Zagreb, Fond 1220D, Box 4.1 (5688), Information about the position of the secretariat of the Central Committee of the LC of Slovenia, not dated, p. 13-15.

⁷⁵² HDA, Zagreb, Fond 1220D, Box 4.1 (5688), p. 9-10

The position of the Serbian Central Committee was more balanced. The Serbian document argued that the League of Communists “is not and cannot be against those social differences which are based on the results of labour, because they are a factor of progress.”⁷⁵³ At the same time, the document noted that the unequal distribution of income “does not invalidate the principle of socialist solidarity which assumes that those who earn higher incomes should also make a greater contribution to addressing social needs.”⁷⁵⁴ Finally, and just as importantly from the perspective of this dissertation, Serbia’s leadership emphasized the need for the greater role of social planning in the steering of social development, suggesting that plan and market must go hand in hand.⁷⁵⁵

Thus, toward the end of the era of laissez-faire socialism, a number of powerful stakeholders strove to strengthen the role of the state in the economy. The consistent application of market reforms, which would have included bankruptcies, unemployment, and other normal effects of the market, would have meant a decisive shift away from socialism as a socio-economic system. This was something that most of the political elites at the centre, as well as in most of the less developed republics, did not, and in some cases could not, condone. During the early days of the debate about economic strategy, in the early 1960s, many members of the elite expressed doubts about the extent of market reforms. These doubts suggested it was unlikely that

[A] regime with Welfare State [sic!] commitments, and one founded on the protest of backward regions against neglect, [would] accept the social and political consequences of the unemployment, restricted social services and

⁷⁵³ HDA, Zagreb, Fond 1220D, Box 4.1 (5688), Suggestions and critiques of the secretariat of the Central Committee of the LC of Serbia (November 2nd, 1971), p. 5.

⁷⁵⁴ Ibid.

⁷⁵⁵ Ibid., p. 8. The most vehement supporters of the reform favoured the greater role of the market than that of the state.

widening gap between the developed and underdeveloped which were certain to come.⁷⁵⁶

These dissenting views continued to find political support and were translated into policy decisions as well. As a result, the countervailing forces working against the full transition to a market economy also placed limits to the autonomy of the republics, including, notably, the fiscal autonomy of Slovenia and Croatia. These republics' fiscal resources would continue to be siphoned off to the federal government and the less developed republics, in order to both foster more even development and keep the social peace and control the direction of market forces.

The most important redistributive mechanism was the Fund for the Development of Underdeveloped Regions, established in 1965. Financed from the contributions made by the more developed republics, the Fund provided credit and grants-in-aid to less developed republics.⁷⁵⁷ The continuing presence of this redistributive mechanism would prove to be a constant source of tension between Croatia and the federal government. The process of decentralization, and particularly the pace at which fiscal resources were transferred from the federation to the enterprises and republics, were unfolding too slowly for the liking of the Croatian leadership.⁷⁵⁸ The laissez-faire governing orientation of the central elites was tempered by the need to periodically boast their socialist credentials to the relevant constituencies: both rank-and-file party members and the general public in the less developed parts of the country. This balancing act often led to contradictory results, which is why the process of decentralization also proceeded in a

⁷⁵⁶ Rusinow, *The Yugoslav Experiment 1948-1974*, 131.

⁷⁵⁷ Pleština argues that the establishment of the Fund was a side-payment of the rich republics to their southern counterparts, in return for the poorer republics' support of the 1965 reform. Pleština, *Regional Development in Communist Yugoslavia*, 59.

⁷⁵⁸ Rusinow and Burg provide the most complete accounts of these processes. Burg, *Conflict and Cohesion in Socialist Yugoslavia*; Rusinow, *The Yugoslav Experiment 1948-1974*.

series of very slow and very contentious steps. Nevertheless, as I have demonstrated in the previous section, republican autonomy was enhanced significantly between 1966 and 1971.

A Return to (Modified) Statism and Limits of Accommodation

Yugoslavia's experiment in laissez-faire socialism ended in late 1971. The trigger behind this decision was nationalist mobilization in Croatia and the readiness of the Croatian leadership to leverage nationalist sentiment in bargaining against the central government.⁷⁵⁹ A closer analysis of this shift reveals that other factors played a role as well. Foremost was the turning of the clock on what was perceived as excessive emphasis on the market in the previous period. Conservative forces in the federal and republican party organizations used the nationalist crisis in Croatia to scale back some of the economic liberalization of the 1960s. Whereas during the preceding period, politicians were emphasizing de-etatization and the danger of bureaucratic socialism, after the events of 1971 one could more often hear concerns with solidarity and mutual help within the Yugoslav community of nations.⁷⁶⁰ With this turn, pressure on the fiscal autonomy of wealthier republics continued and intensified over time.

The 1974 Constitution entrenched the obligation of the more developed parts of the federation, together with the federal government, to contribute to a more equitable economic development of Yugoslavia. In addition, the 1976 'Law on Associated Labour'

⁷⁵⁹ Burg, *Conflict and Cohesion in Socialist Yugoslavia*. For a first hand account of one of the key protagonists of the 'Croatian Spring', see Tripalo's book. Miko Tripalo, *Hrvatsko Proljeće* (Zagreb: Globus, 1989). Miko Tripalo was the secretary of the Executive Committee of the League of Communists of Croatia and, for a time, the number two politician in Croatia, second only to the much more experienced Vladimir Bakarić.

⁷⁶⁰ HDA, Zagreb, Fond 1220D, Box 4.1 (5792), Transcripts of the 2nd Conference of LCY (January 26-27, 1972)

further reinforced statist elements of Yugoslavia's new strategy of governance. In response to the perceived excesses of the market reform of 1965, the central Party elites promoted a new, decentralized model of socialism, in which workers received more extensive social protections relative to the late 1960s.⁷⁶¹ Workers' Councils were also granted increasing negative (veto) powers when it came to decision-making power in the enterprises.⁷⁶² The market mechanism was further weakened by the requirement that most economic decisions be made in consultation with local or republican political bodies. Moreover, social spending became the subject of extensive political bargaining and consultation through so-called 'self-managed communities of interest'. Strengthening political control over enterprises and facilitating 'democratization' of decision-making in social policy fostered further growth in the bureaucratic apparatus, and a requisite growth in political intervention in the economy.⁷⁶³ As Goldstein noted, the "state in its classical sense was not growing directly, but rather indirectly, by way of 'mediating institutions', such as the self-managed communities of interest."⁷⁶⁴

This reorientation to a heterodox form of statism meant that the redistribution of funds from wealthier to poorer parts of the federation would continue. While the federal government was no longer as fiscally (or politically) powerful as it had been during the 1960s, it was constitutionally empowered to implement provisions relating to the equalization of fiscal resources available to republics. It was also in charge of ensuring equitable economic development. The institutional framework through which it was to

⁷⁶¹ By contrast with the 1965 Reform, enterprises were discouraged from dismissing employees. Lampe, *Yugoslavia as History*, 318.

⁷⁶² Allcock, *Explaining Yugoslavia*, 91; Ivo Goldstein, *Hrvatska 1918-2008* (Zagreb: Novi Liber, 2008), 569; Lampe, *Yugoslavia as History*, 315–19. Former Yugoslav Prime Minister, Milka Planinc, argued that the "Law of Associated Labour" was an "escape from the market", and that its main goal to "protect the worker to the extreme." Personal interview, October 3, 2007, Zagreb, Croatia.

⁷⁶³ Goldstein, *Hrvatska 1918-2008*, 571.

⁷⁶⁴ *Ibid.*, 574.

accomplish these goals was the aforementioned Fund for the Development of Less Developed Republics and Kosovo. The federal government faced continued pressures by the less developed republics for more funding, which took the form of greater demands on the fiscal resources of the more developed republics, particularly Slovenia and Croatia.⁷⁶⁵ In fact, by December of 1980, the leadership of Serbia proper (Serbia without the provinces) also requested that it be included in the list of less developed areas of the country. Slovenia and Croatia refused and, in fact, demanded that the Fund be abolished altogether.⁷⁶⁶

Nevertheless, pressures for the strengthening of the power and authority of the federal government were not fully actualized. The main factor inhibiting the process was Yugoslavia's confederal institutional architecture, developed between 1967 and 1974. Through their influence at the centre, republics were able to scuttle any institutional or policy reforms that threatened to weaken their power or undermine their interests. Yet, the power of the republics was largely negative. They could prevent decisions, but unless consensus was achieved among all of them, they could not engage in constructive action. Thus, the political economy factors outlined in this dissertation go far in explaining the pressures emanating from the federal centre during the late 1970s and early 1980s for a reduction in the fiscal autonomy of wealthier republics. On the other hand, it is the institutional framework that explains the actual accommodative outcomes – the continued autonomy of constituent republics of Yugoslavia. One must note that confederal institutional arrangements are quite rare even among multinational polities. Had a majoritarian confederal system been in place in Yugoslavia, to say nothing of a classical

⁷⁶⁵ Burg, *Conflict and Cohesion in Socialist Yugoslavia*, 277; Ramet, *Nationalism and Federalism in Yugoslavia, 1963-1983*, 195–202.

⁷⁶⁶ Petar Fleković (Premier of Croatia, 1978-1980), personal interview, October 11, 2007, Zagreb, Croatia.

federal one, a significant degree of recentralization would likely have taken place. The political consequences of such a process, in terms of state stability, would probably have been negative.

In the event, during the 1980s the federal government recouped some of its decision-making powers and fiscal capacity, though confederal institutional features prevented a decisive shift in relative power between the levels of government during this decade as well. The reason behind these centralizing pressures, however, had little to do with the main variables underscored in this dissertation. The decade-long economic crisis, exacerbated by the inability of the federal centre to effectively implement necessary reforms and stabilization policies, provided federal politicians with the opening necessary to break through the inter-republican deadlock. For example, the Federal Executive Council managed, however temporarily, to recentralize control over hard currency, which during the early 1970s had passed to the republics and enterprises. The goal of the currency law was to stop the further growth of Yugoslavia's foreign debt.⁷⁶⁷ Ironically, by endorsing confederalism in order to protect the market reforms of the 1960s, the economic liberalizers ultimately created the institutional structure which made a decisive shift toward a market economy during the 1980s impossible. Ultimately, it was only Yugoslavia's last Prime Minister, Ante Marković, who was able to decisively rationalize and recentralize the federal government.⁷⁶⁸ By the time he had started to implement his program (1990), it was already too late, as main players in the forthcoming Yugoslav drama had already made their entrance on the country's political scene.

⁷⁶⁷ Jović, *Jugoslavija, država koja je odumrla*, 237–43.

⁷⁶⁸ Daniel Treisman, *After the Deluge: Regional Crises and Political Consolidation in Russia* (Ann Arbor: University of Michigan Press, 1999), 139.

Does Yugoslavia's authoritarian character make it unsuitable for comparison with the other three cases analyzed in this dissertation? Yugoslavia's authoritarianism would have been consequential for the present argument if the regime type had precluded substantial autonomy in the first place. After all, authoritarian leaders usually strive to concentrate power, rather than dilute it through multi-level governance. The Yugoslav case disappoints the skeptics because the country's federal leadership actually fostered the creation of competing centres of power during the 1960s. Rusinow, Burg, and other notable scholars have suggested that an authoritarian polyarchy of sorts, based on the autonomy of the republican Party and state organizations, emerged in Yugoslavia during the mid 1960s.

Thus, while Yugoslavia had no multi-party system, and while the rule of law was in some cases subject to party discipline, the centre was no longer the ultimate source of all power and authority. Even after the obviously unconstitutional removal of the Croatian leadership in 1971, federal elites did not reverse institutional reforms enacted during preceding years. Institutions and legitimacy mattered, no matter how powerful an individual president Tito might have been.⁷⁶⁹ In fact, as this chapter has demonstrated, confederal institutions actually precluded recentralization of power in the late 1970s and 1980s, despite pressures in this direction, and despite regime type. Moreover, one could make the case that the authoritarian character of the regime actually facilitated the extension of autonomy during the 1960s. Had a majoritarian democracy been in place instead of a single-party system, it is conceivable that the minority Croats and Slovenes

⁷⁶⁹ What Yugoslavia was facing in 1971 was perceived by many as a 'national crisis'. Such crises often elicit less than democratic responses in far more democratic states than Yugoslavia. Indira Gandhi's rule by decree is only the most obvious example. P. N. Dhar, *Indira Gandhi, the "Emergency", and Indian Democracy* (New York: Oxford University Press, 2000).

would have been outvoted on issues of institutional change and that decentralization would not have gone as far as it had during the 1960s, especially in light of countervailing pressures that I have noted above.

5.5. Conclusion

The ability of the Yugoslav government to accommodate the demands of its most autonomy-minded republics, Croatia and Slovenia, was influenced both by the economic geography of Yugoslavia, and by the strategies of governance the Yugoslav leadership had employed between 1960 and 1984. When the federal Party leadership embraced a laissez-faire version of socialism, together with the social and regional inequalities it would entail, it was able to offer increasing autonomy to all republics. Since this new strategy entailed a reduction in the influence and fiscal demands of the central government, it was compatible with the devolution of funds and economic power to republics, including the autonomy-minded (and comparatively wealthier) Slovenia and Croatia. The fact that the political elites in those two republics also endorsed market-based strategies of governance facilitated accommodation. Nevertheless, even as the federal Party and government embraced market socialism, they were forced to reckon with demands for the alleviation of the worst excesses of the market. Otherwise, the political legitimacy of the system would have been drastically weakened. Because of this, the process of decentralization was both slow and highly contentious, though ultimately fairly far reaching.

Thus, had the federal elites continued to embrace socialist statism during the 1960s, their ability to accommodate Croat and Slovene demands for extensive republican autonomy would have been sharply curtailed, especially in comparison to what had

actually happened. Continued redistributive efforts would have required fiscal resources derived disproportionately from the more developed constituent units. In those circumstances, it is almost certain that the federal Party and government would not have accommodated Slovenia and Croatia to the extent they did, especially in terms of policy and fiscal autonomy.

When the central leadership reverted to a statist brand of socialism that constitutionally entrenched territorial and social redistribution, autonomy became more contentious and problematic, since it clashed more openly with the legitimizing demands of the central government. More autonomy, particularly fiscal autonomy, for the republics, meant fewer resources to redistribute to the less developed parts of Yugoslavia, thereby preventing the central government from fully implementing its mandate. At this point, however, the confederal features of the country's institutional architecture precluded a more thorough centralization than would otherwise have occurred.

CHAPTER 6: Spain

Spain's accommodation of its minority nations, also referred to as 'nationalities'⁷⁷⁰, was closely linked to that country's transition to democracy.⁷⁷¹ Early attempts at accommodation, during the late 1970s and early 1980s, were limited by the perceived need to ensure democratic consolidation as the political priority of the first order. Nevertheless, as this chapter will demonstrate, Spain's territorial units have secured progressively greater levels of autonomy over the three decades following the 'pacted transition' of 1976-1977. Analytical focus is placed on the largest minority-inhabited region of Spain – Catalonia. I will analyze the process of Catalonia's accommodation between the enactment of Spain's democratic Constitution of 1978 and the negotiation of Catalonia's most recent Statute of Autonomy in 2006.

Just like Yugoslavia, Spain is more difficult to classify than the other two cases analyzed in this dissertation. Though I will demonstrate that Spain's government adopted a moderately *laissez-faire* strategy of governance during the period in question, I will also note that, during the 1980s, government involvement in the economy actually grew in significant ways. Yet, Catalonia's accommodation proceeded unhindered. I explain this

⁷⁷⁰ This designation is used in Spain's Constitution of 1978 (Section 2). The document was a compromise between the political actors on the right, who did not wish to recognize the nationally plural character of Spain, and those on the left, who strove to acknowledge it more openly. As a result, Spaniards are, in the jurisprudential sense, both a nation and an amalgam of 'nationalities' - a wonderfully contradictory legal construct that has proven politically problematic to this day.

⁷⁷¹ Spain has featured prominently in many important works on comparative democratization, to say nothing of the monographs dealing exclusively with the issue of Spanish transition. See Juan J Linz, *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe* (Baltimore: Johns Hopkins University Press, 1996); Guillermo A O'Donnell, Philippe C Schmitter, and Laurence Whitehead, eds., *Transitions from Authoritarian Rule* (Baltimore: Johns Hopkins University Press, 1986); Raymond Carr and Juan Pablo Fusi Aizpurúa, *Spain, Dictatorship to Democracy, 2nd ed.* (London: Allen & Unwin, 1981); José María Maravall, *The Transition to Democracy in Spain* (London: Croom Helm, 1982); Paul Preston, *Juan Carlos: Steering Spain from Dictatorship to Democracy, 1st ed.* (New York: W.W. Norton, 2004).

apparent challenge to my hypothesis in the following way. First, much of the early growth in government spending actually found its way to Catalonia, tempering Catalan demands. Second, while most of the majority-inhabited Spain is less developed relative to Catalonia (and the Basque Country), there is one exception to this rule: Madrid. As one of the wealthiest regions of Spain, Madrid, during the late 1980s and the early 1990s, was making a disproportionate contribution to the central government budget. Had this not been the case, increases in Catalan fiscal autonomy would likely have been more limited.

During the 1990s, the Spanish government reduced public spending, thereby also decreasing the overall fiscal load on wealthier parts of the country. It was therefore able to continue broadening the fiscal autonomy of Catalonia and other wealthier regions. Yet, even as the central government was lowering its spending, the pattern of expenditures became more territorially redistributive. During the 1990s, Catalan political elites, aware of the fact that their *share* (if not the absolute sum) of contributions to the central budget was increasing, started to push for even greater autonomy. However, since the Spanish central government never was dedicated unambiguously to a *laissez-faire* strategy of governance, further extension of Catalonia's autonomy was limited. Thus, despite the fact that the common state elites agreed to increase central government public spending in Catalonia in 2006, they refused to grant that region the same type of fiscal autonomy prevailing in the Basque Country and Navarra.⁷⁷² While the latter two Autonomous Communities (ACs) provide a fairly small percentage of public funds to the central government, Catalonia's contribution is far larger and more significant. The current

⁷⁷² These two Autonomous Communities have nearly full control over their taxation and expenditures. Instead of receiving transfers from the central budget, they pass on a portion of their territorial taxes collected to Madrid.

chapter follows the same format as the previous three, with the historical background to the nationalities question followed by an analysis of Spain's accommodative capacity.

6.1. Historical Background

Of the four states analyzed in this dissertation, Spain has by far the longest geopolitical pedigree. Its borders have remained largely the same since the dynastic union of Castile/Leon and Aragon in 1479.⁷⁷³ The reconquest of Granada in 1492 and the final expulsion of the Arabs, together with the annexation of Navarre in 1515, completed Spain's territorial consolidation.⁷⁷⁴ However, like all other large European polities of that era, Spain also had to contend with the challenges of politically integrating disparate territorial units.⁷⁷⁵

Castilian political elites have dominated Spanish political history. Catalonia, as part of the Crown of Aragon, and a rival centre of power to Madrid, never fully accepted their dominance, resisting periodic attempts at centralization.⁷⁷⁶ This resistance was bolstered by distinct political institutions and culture. While the rulers of Castile were establishing an absolutist monarchy in their domain, a more representative system of

⁷⁷³ Simon Barton, *A History of Spain*, 2nd ed. (Basingstoke: Palgrave Macmillan, 2009), 98. One should note, of course, that early Spain was a form of a pre-modern federal polity, as were so many other European states of the early modern era. Thus, as Herr points out: 'The monarch's decrees identified him as king of Castile, of Leon, of Aragon, of Valencia, of Navarre; as count of Barcelona, lord (senor) of Vizcaya [and so on].' Richard Herr, "The Constitution of 1812 and the Spanish Road to Parliamentary Monarchy," in *Revolution and the Meanings of Freedom in the Nineteenth Century*, ed. Isser Woloch (Stanford: Stanford University Press, 1996), 65. Herr also notes that the first king of *Spain* was Napoleon's brother, Joseph (Ibid.).

⁷⁷⁴ Juan J Linz, "Early State-building and Late Peripheral Nationalisms Against the State: The Case of Spain," in *Building States and Nations*, ed. S. N Eisenstadt and Stein Rokkan (Beverly Hills: Sage Publications, 1973), 38.

⁷⁷⁵ As today, Castilian Spain was larger in territory and contained the majority of the Kingdom's population. Ibid., 40.

⁷⁷⁶ Stein Rokkan, *State Formation, Nation-Building, and Mass Politics in Europe: The Theory of Stein Rokkan: Based on His Collected Works* (Oxford: Oxford University Press, 1999), 184.

estates emerged in Aragon/Catalonia. Furthermore, while Catalonia and its surroundings were commercial in outlook, Castilian elites placed greater emphasis on external conquest and great power politics.⁷⁷⁷ According to Juan Linz, Spain was ‘a case of partial early state-building in Castile and delayed state-building in Spain.’⁷⁷⁸ In light of Spanish monarchs’ inability to effectively extend their rule across the territory of the entire state, separate Catalan (and Basque) institutions endured throughout the 16th and 17th centuries, helping to preserve a sense of distinctiveness which continued into the modern era, that is, the era of nationalism.⁷⁷⁹

Spain’s ‘national awakening’ was triggered by Napoleon Bonaparte’s conquest of the country in 1808. The more or less spontaneous uprising against the invaders provided Spanish liberals with the opportunity to introduce radical political and economic reforms. The liberal Constitution of Cadiz, promulgated in 1812, established a parliamentary monarchy, with near-universal male suffrage and merit-based public service.⁷⁸⁰ These modernizing reforms rested on an implicit project of pan-Spanish nationalism. The Spanish nation was declared free and independent, and recognized as *the* source of Spain’s sovereignty. The liberal emphasis on individual rights presupposed that all Spanish citizens would be viewed as equals and be subject to the same laws across the territory of Spain.⁷⁸¹ Equal, countrywide application of laws implied the abolition of

⁷⁷⁷ Linz, “Early State-building and Late Peripheral Nationalisms Against the State: The Case of Spain,” 39.

⁷⁷⁸ *Ibid.*, 47–8.

⁷⁷⁹ In 1716, in the aftermath of the War of Spanish Succession, the Catalan constitution was abrogated, bringing Catalonia under the institutional domination of the government in Madrid. *Ibid.*, 49.

⁷⁸⁰ Raymond Carr, *Spain, 1808-1975, 2nd ed.* (Oxford: Clarendon Press, 1982), 92–105; Herr, “The Constitution of 1812 and the Spanish Road to Parliamentary Monarchy,” 82–88.

⁷⁸¹ Incidentally, the Cortes of Cadiz was creating the constitution not only for peninsular Spain, but also for the overseas colonies which were to be incorporated as equals into the new state. Herr, “The Constitution of 1812 and the Spanish Road to Parliamentary Monarchy,” 87.

special medieval privileges for historic regions, including Catalonia and the Basque Country.⁷⁸²

Spain's experiment with liberalism was short-lived, since it rankled powerful *ancien regime* interests. These included the Church, the nobility and, above all, the King, who promptly abolished the Constitution once he returned to power in 1814. The brief constitutional interlude helped draw a line in the sand between two ideological camps, the liberals and the conservatives. The revolutionary violence accompanying it provided the violent template which Spanish politics would follow over the next century and a half. Whereas liberal modernizers of all hues looked forward to political, social and economic modernization of Spain, their conservative opponents endorsed a strong monarchy and traditional privileges; the continued role of the Church in political affairs; and, importantly for the purposes of this dissertation, the preservation of local privileges for Basque and Catalan lands. Catalan elites carefully navigated turbulent 19th century Spain, some of them supporting the monarchists and others backing liberal reformists whose goal, the general modernization of Spain, would have benefited the already wealthy and fairly modern Catalonia the most.⁷⁸³

The distinct cultural and institutional traditions of Catalonia would provide fuel for the development of a distinct national identity during the late 19th century.⁷⁸⁴ Another factor that contributed to the development of separate Catalan identity was uneven economic development, wherein Catalonia and the Basque Country forged ahead of the

⁷⁸² Carr, *Spain, 1808-1975*, 98.

⁷⁸³ Richard Herr, *An historical essay on modern Spain* (Berkeley: University of California Press, 1974), 82; Linz, "Early State-building and Late Peripheral Nationalisms Against the State: The Case of Spain," 51–52; Mary Vincent, *Spain 1833-2002: People and State* (Oxford: Oxford University Press, 2007), Chs. 1–3.

⁷⁸⁴ I do not suggest that Catalan national identity developed in an unproblematic, linear manner. Nevertheless, 19th century Catalan nationalists had a rich repository of symbols upon which they were able to draw in their construction of the Catalan nation. On the ethno-symbolic approach to nation-building, see Anthony D Smith, *Ethno-Symbolism and Nationalism: A Cultural Approach* (London: Routledge, 2009).

rest of Spain.⁷⁸⁵ In addition, Catalan elites, particularly in the economic domain, were increasingly aware of their inability to affect the central government's policies in order to protect and promote their interests. For example, between 1833 and 1901, only 24 out of 902 government ministers were Catalan.⁷⁸⁶ These were the structural and political conditions in which Catalan nationalism started to emerge.

Catalan national 'awakening',⁷⁸⁷ like that of most other stateless nations of 19th century Europe, started with a cultural renaissance movement. During the mid-19th century a number of writers started to create Catalan-language literature, crafting, or otherwise reinforcing, a cultural identity separate from the Castilian/Spanish one.⁷⁸⁸ From 1880 onward, the Catalan business community started to subsidize these efforts, thus also providing implicit political support to the work of Catalan regionalists. Catalan industrialists viewed regionalism as another lever in their efforts to protect their own economic interests, especially in the aftermath of Spain's colonial losses in 1898.⁷⁸⁹ It was this alliance of middle class intellectuals and industrialists that gave rise to the nationalist movement in Catalonia around the turn of the 20th century.⁷⁹⁰ However, since the Catalan business class was never unambiguously nationalist, but rather both

⁷⁸⁵ Albert Balcells, *Catalan Nationalism: Past and Present* (New York: St. Martin's Press, 1996), 21; Jordi Maluquer de Motes, "The Industrial Revolution in Catalonia," in *The Economic Modernization of Spain, 1830-1930*, ed. Nicolás Sánchez-Albornoz (New York: New York University Press, 1987).

⁷⁸⁶ Vincent, *Spain 1833-2002*, 52.

⁷⁸⁷ I place the term in quotation marks not to disparage the importance of the emergence of Catalan nationalism, but rather to cast doubt on the term 'awakening', which suggests a primordialist understanding of nationhood— an understanding adopted often by nationalists and seldomly by scholars. Stephen Larin, "Conceptual Debates in Ethnicity, Nationalism, and Migration," in *The International Studies Encyclopedia*, ed. Robert Denemark (Malden: Wiley-Blackwell, 2010).

⁷⁸⁸ Balcells, *Catalan Nationalism*, 25–26; Conversi, *The Basques, the Catalans, and Spain*, 13–17.

⁷⁸⁹ Conversi, *The Basques, the Catalans, and Spain*, 17–18; Vincent, *Spain 1833-2002*, 94.

⁷⁹⁰ Vincent, *Spain 1833-2002*, 94.

autonomist and pro-Spanish, early mainstream Catalan nationalism was never fully secessionist.⁷⁹¹

Despite the moderate character of early Catalan regionalism and nationalism, both were viewed with a degree of hostility and suspicion by the political elites in Madrid.⁷⁹² This reaction was predictable in the context of rising Spanish nationalism, particularly in light of Spain's chronic weakness in international affairs. In 1898, the country finally lost the last of its colonies, Cuba and the Philippines, to the United States. Yet, this was no mere military defeat. It was also a moral disaster, contributing to a general feeling of Spanish inferiority vis-à-vis the other great global powers.⁷⁹³ Later, the suspicion of peripheral nationalisms, as exhibited by the Madrid elites, would prove to be highly consequential in the ideologically radicalized period between the two world wars.

Catalan nationalist parties grew in support and strength during the first two decades of the 20th century.⁷⁹⁴ During this time, Catalan nationalism was largely centrist in its ideological orientation, in part due to the support provided by Catalan business. In the immediate aftermath of World War I, Catalonia's working class radicalized in much the same way as did labourers in many other parts of Europe. The 'Bolshevik triennium' (1918-1921) resulted in the merging of left-wing radicals and Catalan nationalists,

⁷⁹¹ However weak the political position of Catalan industrialists may have been, they were nevertheless oriented toward and dependent on the internal Spanish market. Therefore, the Catalan bourgeoisie continued demanding protectionist measures from Madrid. In this, they were not always successful. Ibid.

⁷⁹² Ibid., 101; 109. Balcells offers a telling quote from a Madrid paper during the First Republic, in 1873: "We will have to give them [the Catalans] a homogeneous cabinet, made up entirely of Catalans, the seventeen provincial governments they still lack, and get the rest of Spain to pay them increased tributes so that they will do us the favour of *not declaring their independence or considering changing their nationality.*" Balcells, *Catalan Nationalism*, 31, emphasis added. The resentment that the majority Castilian speakers felt towards political Catalanism therefore predates the emergence of full-fledged Catalan nationalism.

⁷⁹³ Carr, *Spain, 1808-1975*, 387.

⁷⁹⁴ This was the era of the establishment of the first Catalanist parties, the most powerful among which was the Lliga Regionalista. Balcells, *Catalan Nationalism*.

transforming Catalan nationalism into a left-wing force during subsequent decades.⁷⁹⁵ Thereafter, Catalan nationalists solidified their status as the perennial enemy of the Spanish traditionalist right. Not only did their ‘separatism’ threaten the integrity of the Spanish state, but it also came to represent an ideological danger.

The establishment of the Second Spanish Republic in 1931 was accompanied by the election of a centre-left coalition government. The new government’s program implied a significant reduction in the power of traditional elites.⁷⁹⁶ In addition to initiating sweeping social reforms, the new government was disposed favourably toward Catalan and Basque claims for political decentralization. As a result, Catalonia was granted autonomy in September of 1932.⁷⁹⁷ Yet, in the extremely polarized political environment of inter-war Spain, the government was unable to keep the peace between the radical left and right. For the traditionalist right— including the Catholic Church, the army, big business, and landowning interests— the government’s program was far too radical. On the other hand, it was too timid for the long-disenfranchised, impoverished, and revolution-minded masses of rural and urban workers. The centre simply could not hold.

Finally, tensions between right-wing forces and their republican foes resulted in a bloody civil war which many scholars view as the opening battle of World War II. While escalating ideological and class tensions were among this war’s primary causes, the

⁷⁹⁵ Ibid., 77; 92–93; Carr, *Spain, 1808-1975*, 509–16; Conversi, *The Basques, the Catalans, and Spain*, 38–39; Charles E. Ehrlich, “The Lliga Regionalista and the Catalan Industrial Bourgeoisie,” *Journal of Contemporary History* 33, no. 3 (1998): 406–07.

⁷⁹⁶ The government embarked upon an enormously ambitious legislative program, which included the separation of church and state; broad and unprecedented educational reform; reorganization of the army which, *inter alia*, retired a large number of superfluous officers, rationalized the military structure, as well as attempted to reduce the army’s independence of the civilian authorities; labour reform that ensured greater protection for workers; and agrarian reform. Stanley G. Payne, *Spain’s First Democracy: The Second Republic, 1931-1936* (Madison: University of Wisconsin Press, 1993), Ch. 4.

⁷⁹⁷ Ibid., 105.

regional question also contributed as well.⁷⁹⁸ Autonomist or ‘separatist’ claims were particularly repugnant for the military, whose members had by this point developed a self-image as defenders of the nation.⁷⁹⁹ To military and right-wing political elites, territorial autonomy for the Catalan and Basque minorities undermined one of the most important principles of fascism– the unity of the state and nation. Autonomy therefore joined the other ‘evils’ of the republican left: socialism, democracy and secularism.⁸⁰⁰ As Franco’s nationalist army conquered Republican territories, both the Basque and the Catalan statutes of autonomy were annulled. Francoist repression in Catalonia was particularly severe, due to the strength of Catalan nationalism, republicanism, anarchism and communism in that part of Spain.⁸⁰¹ Thus, the public use of Catalan language was banned.⁸⁰² Catalan political and cultural institutions also were dissolved with the goal of a full cultural assimilation of the local population.⁸⁰³ However, it must be noted that, after decades of labour unrest and militancy, particularly in industrial Barcelona, Catalan business elites had much to gain from Franco’s labour-repressive regime.⁸⁰⁴

Even as the suppression of Catalan identity receded with time, it continued to reinforce nationalist grievances, ensuring the continued political relevance of the Catalan national question well into the democratic era. Catalan identity would come under

⁷⁹⁸ The right wing politician Calvo Sotelo proclaimed in 1936, “I’d prefer a Red Spain to a broken Spain,” referring to the potential of loss of territories to independence movements. Conversi, *The Basques, the Catalans, and Spain*, 109.

⁷⁹⁹ Diego Muro and Alejandro Quiroga, “Spanish Nationalism: Ethnic or Civic?” *Ethnicities* 5, no. 1 (2005): 17.

⁸⁰⁰ Sebastian Balfour and Alejandro Quiroga, *The Reinvention of Spain: Nation and Identity Since Democracy* (Oxford: Oxford University Press, 2007), 36; Paul Preston, *The Spanish Civil War, 1936-39* (Chicago: Dorsey Press, 1986).

⁸⁰¹ Juan Diez Medrano, *Divided Nations: Class, Politics, and Nationalism in the Basque Country and Catalonia* (Ithaca: Cornell University Press, 1995), 117.

⁸⁰² The same policy was applied to Basque and Galician languages.

⁸⁰³ Conversi, *The Basques, the Catalans, and Spain*, 109–13.

⁸⁰⁴ Joseph Harrison, “Early Francoism and Economic Paralysis in Catalonia, 1939-1951,” *European History Quarterly* 39, no. 2 (2009): 202.

pressure from yet another, less expected source - the explosive economic growth of the 1960s. Spain's rate of industrial growth between 1959 and 1972 was second only to Japan among OECD member states.⁸⁰⁵ While the regime's early policies discriminated against Catalan economic interests,⁸⁰⁶ the moderate economic liberalization of the 1960s fostered further economic development in the wealthier parts of Spain, including Madrid, the Basque Country and Catalonia.⁸⁰⁷ These regions therefore attracted large numbers of internal migrants, mostly from the populous and relatively poorer southern provinces, such as Andalusia. Between 1950 and 1975, 1.4 million Spaniards made their way to Catalonia alone.⁸⁰⁸ The presence of such large numbers of Castilian-speakers added another dimension to Catalan (and Basque) national grievances, giving rise to fears of assimilation through the inflow of large numbers of Spaniards. For politically active and engaged Catalans, autonomy remained a pressing issue as the Franco dictatorship drew to a close. Their preferences would leave a significant mark on the nature of Spain's democratic transition.

Franco's regime fell only after his death in 1975, though cracks in the authoritarian edifice emerged well before that.⁸⁰⁹ The popular discontent that began spreading in the early 1960s found its most frequent expression in labour movement activism, student protests, Church reform and, ultimately, growing nationalist agitation in the Basque Country and Catalonia.⁸¹⁰ For instance, the Basque nationalist terrorist

⁸⁰⁵ Joseph Harrison, *An Economic History of Modern Spain* (Manchester: Manchester University Press, 1978), 163.

⁸⁰⁶ Harrison, "Early Francoism and Economic Paralysis in Catalonia, 1939-1951," 199.

⁸⁰⁷ Carr, *Spain, 1808-1975*, 747.

⁸⁰⁸ M. Montserrat Guibernau i Berdún, *Catalan Nationalism: Francoism, Transition and Democracy*, (London: Routledge, 2004), 67. In 1950, the population of Catalonia was approximately 3.2 million.

⁸⁰⁹ Though the regime also enjoyed a considerable degree of popular support. Carr and Fusi Aizpurúa, *Spain, Dictatorship to Democracy*, 135.

⁸¹⁰ *Ibid.*, Ch. 7.

organization, ETA, opened its campaign of violent resistance to Spanish government in 1968.⁸¹¹ Under the guidance of Adolfo Suarez, the last authoritarian Prime Minister, and Juan Carlos, who was anointed King soon after Franco's death, a 'pacted break' with authoritarianism was accomplished.⁸¹² Spain's democratization was a negotiated deal between the reformist forces of the old order, led by Suarez, and the main opposition forces, headed by the Spanish Socialists (PSOE), as well as the always important Catalan and Basque regionalists.⁸¹³ Neither the far right nor the opposition would achieve all of their goals. For instance, while Franco's political heirs and the army were opposed vehemently to the legalization of the Communist Party (PCE), Suarez understood it to be a necessary token of his commitment to democratic reform. On the other hand, the early hopes of the democratic opposition for a full break from the past, a provisional government and a referendum on the regime's form (republic or monarchy) also were not met. The military, which presented the most formidable threat to the fragile process of democratization, was sidelined through skilled maneuvering by the King and Suarez.⁸¹⁴

The 1977 general election, the first after forty years of authoritarian rule, brought Suarez's centre-right Union of Democratic Centre (UCD) to power. A new Constitution was adopted the following year. It included limited concessions to Basque, Catalan and Galician national aspirations. How this outcome was achieved and, more importantly, how the accommodation of Catalonia in particular was to unfold over the next two decades is the subject of the rest of this chapter, to which I now turn. I first set out the

⁸¹¹ Diego Muro, *Ethnicity and Violence: The Case of Radical Basque Nationalism* (New York: Routledge, 2008), 105.

⁸¹² Suarez was appointed by the King. It would prove to be a prescient choice. Of course, he would also become Spain's first democratic Prime-minister after the fall of the regime.

⁸¹³ Carr and Fusi Aizpurúa, *Spain, Dictatorship to Democracy*, Ch. 10; Javier Tusell, *Spain: From Dictatorship to Democracy: 1939 to the Present* (Malden: Blackwell Pub, 2007), Ch. 4.

⁸¹⁴ Carr and Fusi Aizpurúa, *Spain, Dictatorship to Democracy*, Ch. 10.

independent and dependent variables, before proceeding to link them in a causal narrative, explaining the extent and sustainability of Catalonia's autonomy.

6.2. Political economy of Spain (Independent Variables)

Relative levels of development

In West European terms, Spain has been an economic laggard since the 17th century.⁸¹⁵ However, Catalonia has long been an exception to this characterization and, as such, is one of the most developed parts of the country.⁸¹⁶ Even as Catalonia largely was deprived of the early benefits of the Spanish colonial system, it retained its status as a regional economic hub.⁸¹⁷ Characterized by a different political system until 1716, Catalonia was able to pursue policies that were less detrimental to economic development than those of the militarized Castile, where weak representative institutions provided fewer checks on royal prerogatives.⁸¹⁸ Thus, even as Castile was entering a long era of relative economic stagnation and decline, Catalonia managed to improve its standing, in both absolute and relative terms.

⁸¹⁵ For a more nuanced view, see David R Ringrose, *Spain, Europe, and the "Spanish Miracle", 1700-1900* (Cambridge: Cambridge University Press, 1996).

⁸¹⁶ Catalonia was the exception in the economic landscape of Southern Europe during the early stages of industrialization. In terms of economic development and social structure, it was more akin to the industrialized core of Western Europe than the rest of Spain or other Southern European regions. Sidney Pollard, *Peaceful Conquest: The Industrialization of Europe, 1760-1970* (Oxford: Oxford University Press, 1981), 206. As early as 1770, it was called 'a little England in the heart of Spain,' and later on, the 'Manchester of Spain.' Barton, *A History of Spain*, 191.

⁸¹⁷ Jaime Vicens Vives, *An Economic History of Spain* (Princeton: Princeton University Press, 1969), Ch. 17. The 'discovery' of America benefited Castile since it had the monopoly over transatlantic Spanish trade. *Ibid.*, 210.

⁸¹⁸ Vicens Vives argued that the 17th century upturn in Catalonia's economic fortunes occurred due to commerce-friendly policies that the Catalan political elites were able to implement thanks to their autonomy from Madrid. *Ibid.*, 466.

Already better developed than areas further to the South and West, Catalonia was also the first part of Spain to industrialize. The basis for its industrial economy was laid in the 18th century, when pre-industrial Catalan consumer goods enterprises⁸¹⁹ created what would become much-needed inputs for an industrial economy: a skilled labour force, well-developed distribution networks, and a surplus of investible capital.⁸²⁰ Historians regard the opening of the first steam-powered textile mill in 1833 Barcelona as the beginning of Catalonia's industrialization.⁸²¹ Catalan industrial take-off widened the already existing economic disparities between Catalonia and Castilian-speaking Spain. For instance, the region's share in Spain's total industrial output increased from an already impressive 20% in 1844 to almost 40% in 1913.⁸²² Not only did the Catalan economy outpace that of the rest of Spain. It also directly contributed to its 'underdevelopment'. Catalan business largely displaced the less efficient and price-competitive artisanal production of textiles in the Spanish South. Thus, in a classic case of what Andre Gunder Frank has called 'the development of underdevelopment', the faster growth of one regional segment of the Spanish economic system stifled the

⁸¹⁹ Particularly important was the pre-industrial production of textiles, which contributed to the early industrialization of Catalonia in ways described in more detail below. Julie Marfany, "Is it Still Helpful to Talk about Proto-industrialization? Some Suggestions from a Catalan Case Study," *The Economic History Review* 63, no. 4 (2010): 942-973.

⁸²⁰ Ibid., 950; Daniel A. Tirado, Elisenda Paluzie, and Jordi Pons, "Economic Integration and Industrial Location: The Case of Spain Before World War I," *Journal of Economic Geography* 2, no. 3 (2002): 350. Catalonia had a more even distribution of income, which contributed to the creation of a domestic market for consumer goods, particularly textiles. Local demand facilitated the accumulation of capital that contributed to Catalonia's early industrialization. Maluquer de Motes, "The Industrial Revolution in Catalonia."

⁸²¹ J. K. J. Thomson, *A Distinctive Industrialization: Cotton in Barcelona 1728-1832* (Cambridge University Press, 2003), Ch. 9.

⁸²² Tirado, Paluzie, and Pons, "Economic Integration and Industrial Location," 349. In 1900, Catalonia contained only about 10% of Spain's population. National Institute of Statistics, *De Facto Population Figures from 1900 until 1991*, <http://www.ine.es/jaxiBD/menu.do?L=1&divi=DPOH&his=0&type=db>, accessed September 24, 2011.

economic progress of slower-growing ones.⁸²³ Though internal competition was not the only reason for the economic stagnation of the Spanish South, nascent industries in Andalusia were ill-suited to compete with either British or Catalan textile producers.⁸²⁴ Catalonia was becoming economically dominant, despite remaining politically marginal.

Some of the most important economic processes of the 20th century solidified the differences between Catalonia and other more developed parts of Spain, such as the Basque country⁸²⁵, and the less developed areas further south and west. The Great Depression affected Spanish agriculture much more than it did its industry, which was protected from the world markets. Since Catalonia's economy relied on industrial production more than the rest of Spain, it was in a relatively better position to weather the crisis. At the height of the Depression, Catalonia's unemployment rate never exceeded 6.5%.⁸²⁶ The boom of the 1960s also strengthened the economies of the most developed parts of Spain, since most industrial expansion occurred in Catalonia and the other two developed regions, Madrid and the Basque Country. While relative levels of development converged somewhat, Catalonia certainly did not suffer from the developments of the 1960s.⁸²⁷ Some of the convergence was due to the rise of Madrid as the third pole of

⁸²³ Maluquer de Motes, "The Industrial Revolution in Catalonia," 177. Of course, Gunder Frank was talking about the international economic system, but the principles remain the same.

⁸²⁴ Pedro Tedde de Lorca, "On the Historical Origins of Andalusian Underdevelopment," in *The Economic Modernization of Spain, 1830-1930*, ed. Nicolás Sánchez-Albornoz (New York: New York University Press, 1987), 259. For a similar conclusion regarding textile industries outside Catalonia, see Gabriel Tortella Casares, *The Development of Modern Spain: An Economic History of the Nineteenth and Twentieth Centuries* (Cambridge: Harvard University Press, 2000), 82–83; Vicens Vives, *An Economic History of Spain*, 670.

⁸²⁵ Industrialization in the Basque Country was based on the mineral wealth of the province, resulting in a high concentration of mining and metallurgical firms. As such, it was qualitatively different from industrial developments in Catalonia. Tortella Casares, *The Development of Modern Spain*, 86–90. In a particularly ironic twist of history, the Basque provinces were also in the manufacture of explosives necessary for mining operations. *Ibid.*, 94.

⁸²⁶ Harrison, *An Economic History of Modern Spain*, 127.

⁸²⁷ Franco's government did make some attempts to address regional economic disparities. While it is unclear whether the regional development policy implemented by Madrid had the desired effect, there was

economic power in Spain. Madrid made gains as a manufacturing centre and, especially, as the hub of the Spanish banking industry.⁸²⁸ In addition, as foreign investors finally started to pay attention to the Spanish economy, most foreign direct investment was directed to wealthier areas, with all of the attendant advantages of location.⁸²⁹ This can be seen particularly in the location of automotive production, both in terms of final assembly and parts manufactures, from the 1960s onwards.⁸³⁰ Ultimately, the enormous influx of internal migrants to Catalonia, as well as Madrid and the Basque Country, indicates the economic dynamism of these regions and confirms their economic primacy.⁸³¹

Thus, as the foregoing summary has shown, the most economically developed parts of Spain have, for most of the 20th century, been inhabited by minority nations, especially Catalans and Basques.⁸³² The one exception to this rule has been Madrid, a Castilian-speaking jurisdiction which has ranked and continues to rank as one of Spain's economic power-houses. These regional patterns of economic development have persisted throughout the democratic period. The rest of this section will point to some broad statistical indicators that continue to demonstrate the importance and economic

a modest convergence of economic conditions between the various regions. See Appendix D, Table 1. Standard deviation on labour productivity indices for all Spanish regions had decreased between 1960 and 1973, suggesting a convergence around the mean. Indeed, the raw data show that Catalonia, Madrid and the Basque Country all lost ground relative to the Spanish average. However, the most populous of the less developed regions, Andalusia, also slid back, meaning that the tide of the 1960s did not lift all boats, and especially not those most in trouble.

⁸²⁸ Harrison, *An Economic History of Modern Spain*, 164; Alison Wright, *The Spanish Economy, 1959-1976, 1st ed.* (London: Macmillan, 1977), 32–33.

⁸²⁹ Harrison notes that almost three quarters of all investment flows to Spain went to the familiar trio, Madrid, Catalonia and the Basque Country, further cementing their economic lead. Joseph Harrison, *The Spanish Economy in the Twentieth Century* (London: Croom Helm, 1985), 157.

⁸³⁰ Montserrat Pallares-Barbera, "Changing Production Systems: The Automobile Industry in Spain," *Economic Geography* 74, no. 4 (December 2008): 344-359.

⁸³¹ Joseph Harrison and David Corkill, *Spain: A Modern European Economy* (Aldershot: Ashgate, 2004), 44.

⁸³² Galicia, home to the third 'historic nationality' of Spain, has traditionally been less developed, scoring below the Spanish average on a number of indicators.

superiority of Catalonia to most of Castilian-speaking Spain, with the notable and important exception of Madrid.

The minority-inhabited autonomous communities of Catalonia, Galicia and the Basque Country comprise less than 30% of Spain's population. Catalonia's population makes for half of this total, or 15% of the country's inhabitants.⁸³³ Yet, Catalonia has contributed steadily to about 20% of Spain's GDP, though this share has declined slightly between 1980 and 2000.⁸³⁴ The Basque Country has also contributed a higher share to Spain's GDP than its population would suggest. On the other hand, majority-inhabited Andalusia, with approximately 18% of Spain's population, only contributed between 13 and 14% of the country's gross domestic product over the same period. While most other Castilian-speaking regions conform to the same pattern, Madrid presents a notable exception. In 2000, with only 13% of Spain's population, it added to over 17% of its GDP.⁸³⁵

As expected, these divisions are reflected in per capita GDP figures. Catalonia, alongside the Basque Country and Madrid, has routinely ranked well above the Spanish average.⁸³⁶ Catalonia's per capita GDP has held steady at a remarkably stable level of approximately 120% of the Spanish mean. Madrid's figure actually has increased over time and, during the 1990s, was usually at above 130% of the Spanish average. On the

⁸³³ See Appendix D, Table 2. The table gives statistics for 1991, the median year. Relative population levels among the Autonomous Communities have not changed much since 1981.

⁸³⁴ Appendix D, Table 3.

⁸³⁵ Ibid.

⁸³⁶ See Appendix D, Table 4. Other Autonomous Communities that have ranked around or above the Spanish average are Navarra and La Rioja (both very small in terms of population and both located close to the Basque country and therefore constituting part of the same regional economy); Aragon, which is also fairly small in terms of population, and is located between the Basque Country and Catalonia; and finally Balearic Islands, which are among the most sought-after tourist destinations in the country.

other hand, the most populous autonomous community, Andalusia, has generally attained around 75% of the country's average per capita GDP.

Unemployment figures tell a slightly different story, especially during the first decade of the transition, during which even economic giants, such as Catalonia, suffered from economic dislocation. Thus, between 1982 and 1986, Catalan unemployment rates actually exceeded those of the rest of Spain, usually by two or three percentage points.⁸³⁷ During the same period, the Basque Country had also experienced problems with unemployment, as the general trend toward deindustrialization strongly affected Basque heavy industries. At the same time, Andalusia periodically outstripped the national unemployment rate by 10 percentage points. By 1989, Catalonia's unemployment rate slipped below the Spanish average, and remained there throughout the 1990s and beyond. I will draw the implications of this early high unemployment rate in the last section of this chapter.

Catalonia is unambiguously Spain's industrial heartland. While both Catalonia and Madrid exhibit similar levels of per capita GDP and income, industry makes a far more significant contribution to the economy of the former.⁸³⁸ Catalonia's share has been higher than that of any other AC, though it has decreased from 28 to 24% of Spain's industrial production. By comparison, Madrid's contribution has hovered around 10%. Moreover, during the mid 1990s, Catalonia was producing around a quarter of all goods exported from Spain.⁸³⁹ Having said all this, it would appear that Catalonia's relative

⁸³⁷ See Appendix D, Table 5.

⁸³⁸ See Appendix D, Table 6. A similar story can be told without relying on statistics. Taking the train between Madrid and Barcelona, one can immediately spot the difference between the two cities. Whereas Madrid's outskirts are made up of sleepy suburbs, Barcelona is surrounded by a ring of industrial plants. This impressionistic evidence reinforces the data one can find in statistical reports.

⁸³⁹ Kenneth McRoberts, *Catalonia: Nation Building Without a State* (Don Mills: Oxford University Press, 2001), 99.

position in the Spanish economy has deteriorated somewhat. This is part of the reason that Catalan political and intellectual elites have started advocating for greater public investment in Catalonia by the central government.⁸⁴⁰

Strategies of governance

Spain's strategy of governance between 1980 and 2006 eludes easy classification. On the one hand, successive governments, both socialist and conservative, strove (albeit to different degrees) to establish a market economy free of the regulatory fetters of Francoist period. For example, the Spanish Socialist Party (PSOE⁸⁴¹) initiated pro-market reforms after the 1982 general election, rapidly dismantling Franco's interventionist institutional apparatus. The PSOE's liberal economic orientation stemmed from a confluence of factors, including the global rightward re-alignment of ideological forces, as well as the desire of Spanish political leaders and the Spanish population to 're-join' Europe. On the other hand, PSOE governments in particular also tried to limit the social and political damage of Spain's economic transition by creating a limited social welfare state where none had existed previously. They also spent substantial public resources on the process of industrial reconversion, in an effort to strengthen the competitiveness of Spain's economy. Thus, public spending actually increased during the 1980s before it started to fall during the following decade.⁸⁴² I have opted to classify the Spanish strategy of governance as moderately *laissez-faire* because the increase in public spending during the 1980s was undertaken in the interest of liberalizing the economy.

⁸⁴⁰ César Colino, personal interview, October 29, 2009, Madrid, Spain.

⁸⁴¹ Partido Socialista Obrero Español (Spanish Socialist Workers' Party).

⁸⁴² See Appendix D, Chart 7.

During the early years of Spanish democracy, the centre-right UCD government (1977-1982) adopted a cautious approach to economic management.⁸⁴³ The top-down nature of democratic transition, and the organized labour's distrust of the new right-wing government precluded any possibility of a radical break with the past.⁸⁴⁴ The much-needed transformation of the Spanish economy from one dominated by the state to one based on the market would have to wait for the rise of the PSOE.⁸⁴⁵ Under the PSOE, Spain engaged in a program of extensive neoliberal economic restructuring. Both the PSOE victory and its choice of economic strategy were conditioned by several related factors. First, through internal reform, the PSOE abandoned the Marxist revolutionary rhetoric it had used in the election of 1979.⁸⁴⁶ Thus, by 1982, the PSOE was well on the way to becoming a middle-of-the-road social democratic party. Second, the disastrous experience of the Mitterand government in France also contributed to PSOE's decision to move decisively in the direction of economic austerity and liberalization.⁸⁴⁷ Third, it seems that, at the very least, a large plurality, if not an outright majority, of Spain's population supported the centrist drift and the PSOE's neoliberal policies, even as they alienated a section of the party's left-wing constituency.⁸⁴⁸ The popular support for centrist policy solutions is a critical factor that allowed for the existence of a moderately *laissez-faire* strategy of governance without major political instability, periodic strikes

⁸⁴³ In 1977, representatives of the central government, political parties, unions and employers' organizations signed the Moncloa Pacts, Spain's first attempt at tripartite concertation. The Pacts ensured a minimum level of agreement on economic management, but did not make a clear break with the existing economic model. Nancy Bermeo, "Sacrifice, Sequence, and Strength in Successful Dual Transitions: Lessons from Spain," *The Journal of Politics* 56, no. 3 (1994): 607.

⁸⁴⁴ Bermeo, "Sacrifice, Sequence, and Strength in Successful Dual Transitions."

⁸⁴⁵ Donald Share, *Dilemmas of Social Democracy: The Spanish Socialist Workers Party in the 1980s* (New York: Greenwood Press, 1989), 72-3.

⁸⁴⁶ *Ibid.*, 60-61; Tusell, *Spain*, 321-23.

⁸⁴⁷ Carles Boix, *Political Parties, Growth and Equality: Conservative and Social Democratic Economic Strategies in the World Economy* (Cambridge: Cambridge University Press, 1998), 108; Share, *Dilemmas of Social Democracy*, 73.

⁸⁴⁸ Share, *Dilemmas of Social Democracy*, 109.

notwithstanding. Finally, another factor contributing to the PSOE's rightward drift, or, alternatively, ideological 'moderation' was the threat of an authoritarian backlash, especially in the aftermath of the attempted military coup in February of 1981.

While PSOE's pre-election program in 1982 included references to full employment and to public investment as the engine of economic growth, the first budget passed by the government of Prime Minister Felipe Gonzalez was remarkably austere.⁸⁴⁹ Indeed, PSOE's time in power was characterized by policies that one could image just as easily being implemented by a pro-business, centre-right party. This policy orientation was largely the work of a group of reformists led by Carlos Solchaga, initially the Minister of Industry, and later the Minister of Economy. The PSOE reformists believed that the modernization of the Spanish economy should be carried out by the private sector.⁸⁵⁰ In order to pave the way for this, the government emphasized macroeconomic stability above all other priorities. Existing public programs were cut, and moderate increases in taxes implemented. Public sector enterprises were streamlined, resulting in significant job losses and a reduction of the government's fiscal burden.⁸⁵¹ A number of public sector enterprises were privatized during Gonzalez's first two terms in office.⁸⁵²

The government never considered demand management to be a viable part of its economic strategy, intending rather to reduce, or at least to control, public spending. Circumstances showed this would not be possible in the early stages of economic transition. Before becoming Prime Minister, Felipe Gonzalez stated: "I will be satisfied if

⁸⁴⁹ A. Recio and J. Roca, "The Spanish Socialists in Power: Thirteen Years of Economic Policy," *Oxford Review of Economic Policy*, no. 14 (1998): 140; Share, *Dilemmas of Social Democracy*, 69.

⁸⁵⁰ Recio and Roca, "The Spanish Socialists in Power," 149.

⁸⁵¹ Boix, *Political Parties, Growth and Equality*, 122.

⁸⁵² Joaquim Vergés, "Privatisations in Spain: Process, Policies and Goals," *European Journal of Law and Economics* 9, no. 3 (2000): 255-280.

we now implement a bourgeois reform, through which democracy can be stabilized, making it possible for my children to realize a genuine socialist programme in the future.”⁸⁵³ Whether this was a way for a socialist politician to come to terms with what seemed to be a political necessity at the time, or the cynical justification of a vote-chasing official, is unimportant. The statement, and the policies that accompanied it, suggest a rather coherent and unswerving dedication to market forces and a *laissez-faire* strategy of governance.

At the same time, an unambiguously liberal strategy of governance would have been too costly for the Spanish economy (private business included), labour, and the government itself. Accordingly, successive PSOE governments implemented industrial and social policies aiming to make the transition both economically successful and politically palatable. Without measures to make both capital and labour more productive, full market integration with the countries of the European Community was a potentially damaging prospect for the Spanish economy. Spanish enterprises were poorly equipped for competition with the more efficient foreign enterprises. This was no mere theoretical possibility, as the Spanish economy was already suffering and under-performing its OECD counterparts.⁸⁵⁴ The depth of Spain’s crisis was due to profound structural weaknesses in the country’s economy.⁸⁵⁵ While the PSOE reformers considered the public sector to be inefficient and sclerotic, they had little choice but to trust it to be a constructive contributor to economic transformation given the weakness of Spain’s

⁸⁵³ Otto Holman, *Integrating Southern Europe: EC Expansion and the Transnationalization of Spain* (London: Routledge, 1996), 78. Gonzalez also said “the PSOE has to carry out a bourgeois revolution, as a first step toward a socialist program, since the bourgeoisie in this country has yet to create one.” Share, *Dilemmas of Social Democracy*, 61.

⁸⁵⁴ Holman, *Integrating Southern Europe*, 125.

⁸⁵⁵ Recio and Roca, “The Spanish Socialists in Power,” 139–40.

private business.⁸⁵⁶ As a result, the socialist government undertook modernizing the economy under the guidance of the state.⁸⁵⁷

Spain's policy of economic modernization consisted of two key elements. The first entailed significant investments in fixed (physical) and human capital. Public sector investment, both in infrastructure and education, was meant to "increase the overall productivity of the private sector and stimulate domestic and foreign investment in search of higher rates of return."⁸⁵⁸ This part of PSOE's economic strategy resulted in an increase of public funds for fixed capital formation from 3.1 to 5.2% of GDP between 1982 and 1991.⁸⁵⁹ A significant proportion of this investment was channeled toward the transportation network, with the goal of linking the less developed parts of the country with the industrial centres in Madrid and the north.⁸⁶⁰

The second element of the economic modernization strategy was industrial restructuring. The government streamlined public enterprises, many of which were formerly private firms nationalized under the UCD government or even earlier, in a typical example of 'socialization of risk.' These companies shed significant numbers of workers and received sizable funds not only to clear their books, but also to modernize their equipment and enhance their R&D capacity.⁸⁶¹ In the case of some industries, such

⁸⁵⁶ Ibid., 150.

⁸⁵⁷ In his otherwise strong study, Boix seems to conflate the use of state instruments to address market failures and the 'social democratic' imperative for public investment. Boix, *Political Parties, Growth and Equality*, 111. Yet, the state has been used to foster industrialization in place of a weak private sector in many other cases which were far from social democratic. The paradigmatic examples are the East Asian 'Tigers'. Thus, Boix equates the 'developmental' imperative, with its emphasis on supply-side factors, with the social democratic one, which focuses on cushioning the impact of the market on the less well-off.

⁸⁵⁸ Ibid.

⁸⁵⁹ Ibid., 113.

⁸⁶⁰ Infrastructural investment continued beyond this initial period, accelerating during the 1990s. A particularly visible effect of this is the impressive network of high-speed railways in Spain.

⁸⁶¹ Boix, *Political Parties, Growth and Equality*, 122–27; Holman, *Integrating Southern Europe*, 156–60; Recio and Roca, "The Spanish Socialists in Power," 150.

as banking and energy, the government protected Spanish companies in order to create national champions and prevent foreign takeovers.⁸⁶²

In light of the negative consequences of economic reform, which included very high and persistent unemployment rates, the PSOE leadership decided to strengthen the country's social security network as well. Despite attempts to control budgetary deficits, the government increased social spending to levels unheard of in Spain, though still modest by comparison to most other European states. Thus, whereas under Franco the welfare state practically did not exist, the PSOE governments constructed one in under a decade.⁸⁶³ While one could argue that this strategy was inherent in the socialist ideology of PSOE, most accounts make it clear that the expansion of social coverage was subservient to the goal of making the Spanish economy more competitive. In other words, the welfare state was expanded in order to make more bearable the hardship involved in industrial reconversion. For instance unemployment rates at times exceeded 20% of working-age population. For this reason, unemployment benefits were extended to cover a higher proportion of the unemployed, even as they were made less comprehensive.⁸⁶⁴ Furthermore, public pensions were made available to all, though they too were made less generous than those of most other EU member states.⁸⁶⁵ Finally, the public health care system was strengthened, although the private sector continued to play a significant role in the provision of health services.⁸⁶⁶ During the economic crisis of the early 1990s, Spain's unemployment rates climbed higher still, increasing government

⁸⁶² Sebastian Etchemendy, "Revamping the Weak, Protecting the Strong, and Managing Privatization: Governing Globalization in the Spanish takeoff," *Comparative Political Studies* 37, no. 6 (2004): 623-651.

⁸⁶³ Public spending during the final years of Franco's dictatorship was in the order of a miniscule 25%. OECD, *OECD Factbook: Economic, Environmental and Social Statistics*. (2010).

⁸⁶⁴ Kerstin Hamann, "Linking Policies and Economic Voting: Explaining Reelection in the Case of the Spanish Socialist Party," *Comparative Political Studies* 33, no. 8 (2000): 1036.

⁸⁶⁵ *Ibid.*, 1037.

⁸⁶⁶ *Ibid.*, 1037-38.

outlays for unemployment insurance. Yet, however impressive the expansion of the Spanish welfare state may have been, social spending comprised only one third of the total growth in public expenditure, with infrastructure and education accounting for the other two thirds.⁸⁶⁷

Thus, although the government's direct role in the economy was reduced during the 1980s, the government was, in some respects, more present in the lives of Spaniards than it had been under Franco. Government spending as a proportion of the GDP actually increased throughout the first ten years of PSOE rule. However, Spain's ambition to join the European Monetary Union strengthened the hand of liberal reformers in the Socialist Party. During the last PSOE mandate (1993-1996), the government attempted to reduce public spending in order to meet the Maastricht criteria for joining the European Monetary Union.⁸⁶⁸ In the last few years of Gonzalez's administration, the government successfully decreased spending as a percentage of GDP, mainly through cuts to discretionary spending as well as by reducing the coverage of unemployment benefits and temporary disability payments.⁸⁶⁹ The PSOE's commitment to a *laissez-faire* strategy of governance comes through clearly in light of the government's plans to meet the EMU targets for budgetary deficits by cutting expenditures, rather than through a combination of expenditure reductions and revenue increases.⁸⁷⁰ Finally, the privatization of

⁸⁶⁷ Carles Boix, "Managing the Spanish Economy within Europe," *South European Society and Politics* 5, no. 2 (2000): 185.

⁸⁶⁸ OECD, "OECD Economic Surveys: Spain, 1995-1996" (OECD, 1996), 29; Recio and Roca, "The Spanish Socialists in Power," 152-53. A significant obstacle to this rightward shift of the PSOE was removed as Alfonso Guerra resigned his government post in 1991. This signalled a shift within the government towards the technocratic pro-market liberals such as Solchaga. Richard Gillespie, "'Programa 2000': The Appearance and Reality of Socialist Renewal in Spain," *West European Politics* 16, no. 1 (1993): 94.

⁸⁶⁹ OECD, "OECD Economic Surveys: Spain, 1995-1996," 23-24.

⁸⁷⁰ *Ibid.*, 31.

government assets also accelerated during this period.⁸⁷¹ The Partido Popular (PP) governments of Jose Maria Aznar (1996-2004) continued the trend started by the PSOE in the early 1990s, further reducing government expenditures while emphasizing free market principles.⁸⁷² Just like his PSOE predecessor, Aznar embraced policies of fiscal retrenchment and reduced government spending.⁸⁷³ In addition, the PP government sold public assets at an even more rapid pace than its predecessors.⁸⁷⁴

In summary, the economic strategy of Spanish governments under both the PSOE and the PP tended towards the *laissez-faire* end of the spectrum, as both socialist and conservative parties embraced the workings of the market.⁸⁷⁵ On the other hand, there was an actual increase in the overall level of public spending, particularly during the late 1980s and early 1990s.⁸⁷⁶ By the time the PSOE came to power in 1982, public spending was already nearing 40% of GDP, which, though not high by European standards, was significantly higher than the levels of spending under Franco's dictatorship.⁸⁷⁷ Public spending increased to the highest levels around the turn of the 1990s, when the economic crisis sent the Spanish unemployment rate well above 20%, and unemployment benefits were extended to cover a larger proportion of the labour force. However, past the peak of 49% of GDP in 1993, public spending was gradually reduced to below 40% under

⁸⁷¹ Keith Salmon, "Privatization of State-Owned Enterprises in Spain: Redefining the Political Economy," *International Journal of Iberian Studies* 14, no. 3 (2001): 139.

⁸⁷² Llamazares summarizes Aznar's economic ideology thus: "Aznar's writings [...] reflect, quite directly, strong preferences for free markets, low taxes, a residual public sector and a small welfare state." Ivan Llamazares, "The Popular Party and European Integration: Re-Elaborating the European Programme of Spanish Conservatism," *South European Society & Politics* 10, no. 2 (2005): 330, fn. 4.

⁸⁷³ Brendan Murphy, "European Integration and Liberalization: Political Change and Economic Policy Continuity in Spain," *Mediterranean Politics* 4, no. 1 (1999): 66.

⁸⁷⁴ Salmon, "Privatization of State-Owned Enterprises in Spain," 139. The contribution of public companies to value added as a percentage of GDP fell from 8.5 in 1985 to 3.5 in 1999. Vergés, "Privatisations in Spain."

⁸⁷⁵ Chari and Heywood largely concur with this assessment. Raj Chari and Paul M. Heywood, "Analysing the Policy Process in Democratic Spain," *West European Politics* 32, no. 1 (2009): 34.

⁸⁷⁶ See Appendix D, Chart 7.

⁸⁷⁷ Public spending under Franco tended to be around 25% of GDP.

successive Aznar governments, a trend that was continued by his socialist successor, Jose Luis Zapatero (2004-present).⁸⁷⁸ By way of comparison, Canada's public spending reached 45% or more of the GDP for fifteen straight years starting in 1982, whereas Spain hit this mark only three times, during the early 1990s. While Canada's spending increased throughout the 1960s and 1970s, Spain's spending started to decline once the worst of the economic transition was over. This is why I have opted to classify Canada's strategy of governance as moderately statist, and Spain's strategy as moderately *laissez-faire*. The last section of this chapter will discuss the accommodative implications of this strategy of governance in greater detail.

6.3. Assessing Accommodation in Spain (Dependent Variable)

Spain is similar to other multinational federations in that the degree of autonomy extended to the self-governing bodies of minority nations is fiercely contested. Whereas scholars and politicians in Castilian Spain generally believe that the demands of the minority nations have been adequately, and at times excessively, addressed, the perception among the political and intellectual elites in Catalonia is quite different.⁸⁷⁹ This section will demonstrate that Spain has been largely accommodating of Catalan demands, though not unambiguously so. For instance, framework laws passed by the Spanish parliament have frequently been fairly restrictive towards the autonomy of the territorial units. Also, Catalonia's demands for fiscal autonomy arrangements, similar to the kind prevailing in the Basque Country and Navarra, have not been met. Nevertheless,

⁸⁷⁸ Appendix D, Chart 7.

⁸⁷⁹ My interviews with scholars in Madrid and Barcelona reflect this division.

the secular trend in Spain's intergovernmental affairs has tended toward greater autonomy for the territorial units.

Catalonia's *political autonomy* is based on the constitutional framework and the autonomous Catalan party system. Spain's democratic Constitution of 1978 was a compromise between the left and right on a number of issues, including the problem of territorial autonomy for the country's 'nationalities.'⁸⁸⁰ One might say that the spirit of compromise that characterized the democratic opening of the first two years of transition extended to the constitutional negotiations as well.⁸⁸¹ The final draft of the constitution contained numerous ambiguities, including those regarding the territorial organization of the state. For example, Spain was constituted as a monarchy, despite the opposition's preference for a republic; the separation of church and state was combined with a recognition of the Catholic Church's historical importance; and sections on the economy included references to both the importance of the market and state intervention in the economy where 'the public interest so demands.'⁸⁸²

One of the key uncertainties in the Constitution concerned the status of the minority-inhabited regions, Catalonia, the Basque Country and Galicia.⁸⁸³ The Constitution provided for an open-ended devolution of power to the country's 17 Autonomous Communities (ACs), without making Spain explicitly federal. Catalans, Basques and Galicians were recognized as 'nationalities', rather than nations. In fact, the

⁸⁸⁰ Luis Moreno, *The Federalization of Spain* (London: F. Cass, 2001), 60.

⁸⁸¹ Even the Communist Party accepted the national flag and the continued existence of the monarchy, even though both were antithetical to their republicanism. Their restraint was one of the many factors that contributed to the moderation of the Spanish political scene during the transition. Carr and Fusi Aizpurúa, *Spain, Dictatorship to Democracy*, 226.

⁸⁸² Omar Guillermo Encarnación, *Spanish Politics: Democracy After Dictatorship* (Cambridge: Polity, 2008), 39–42.

⁸⁸³ For the tortuous process of deciding on the content of territorial autonomy in the Constitution, see Balfour and Quiroga's short but insightful discussion. Balfour and Quiroga, *The Reinvention of Spain*, 45–60.

first two sections of the Constitution note the existence of a single, ‘indivisible’ Spanish nation, though Section 2 also extends the right of self-government to nationalities and the regions which contain them.⁸⁸⁴ Furthermore, unlike most federal constitutions, the Spanish document does not establish permanently two levels of government and then assign each exclusive or concurrent powers. Rather, it establishes a framework within which autonomy can be sought and achieved, and then delimits those areas of competence which the governments of the ACs *may* seek.

However, the ultimate authority over the Statute of Autonomy of any given AC rests with the Spanish Parliament, which passes it into law.⁸⁸⁵ In addition, the central government has the authority to induce those ACs whose legislation is in breach of the Constitution to conform to it. Residual powers tend to be reserved for the central government as well.⁸⁸⁶ Thus, by the very nature of the constitutional bargain, the political autonomy of Spain’s Autonomous Communities is more circumscribed than that of the Canadian provinces, or even Yugoslavia’s republics. However, much depends on the willingness of the government of the day to cooperate with the regional government in question, which is precisely what is at stake in this dissertation. Indeed, circumscribed political autonomy in the formal-constitutional sense can still allow for a great deal of policy autonomy.

The party system in Catalonia largely ensures political autonomy from the centre, as few Catalan parties, especially those of the centre right, are in any way linked to their

⁸⁸⁴ The 1978 Constitution can be found at http://www.senado.es/constitu_i/indices/consti_ing.pdf (accessed December 13, 2010).

⁸⁸⁵ Section 146 of the Constitution.

⁸⁸⁶ Enric Argullol and Bernadi, “Kingdom of Spain,” in *Distribution of Powers and Responsibilities in Federal Countries*, ed. Akhtar. Majeed, Ronald L. Watts, and Douglas M. Brown (Montreal: McGill-Queen’s University Press, 2006), 252.

Spanish counterparts. Kenneth McRoberts has described the Catalan party system as being characterized by ‘sphere separation’, where the region’s electorate votes for different parties in different elections.⁸⁸⁷ For example, the centre-right *Convergència i Unió* (CiU), which has no state-wide counterpart or any formal or effective institutional links to state-wide parties, has been the ruling party of Catalonia for 23 years, starting in 1980. The Socialist Party of Catalonia (PSC), which is federated with the state-wide PSOE, has been in power in a coalition with other left-wing, but more decidedly nationalist, parties only between 2003 and 2010. Thus, for most of the period under study, Catalan politics has been dominated by a party which has not been subject to the institutional influence of Madrid-based parties. Moreover, even the Catalan Socialist Party is quite autonomous from the PSOE, though there are limits to this autonomy, given the PSC’s resource dependence on the PSOE during the early years of democracy.⁸⁸⁸ In fact, as the fortunes of the CiU have shown, the Catalan electorate tends to punish the regional parties that cooperate with state-wide parties.⁸⁸⁹

Catalonia has been able to acquire a significant degree of *policy autonomy*, partly because of the fairly extensive list of competencies that the 1978 Constitution made available to the ACs. The powers that the ACs could claim include: the right to legislate and implement policies in the areas of health care and social assistance, as well as infrastructural and economic development within their particular boundaries. ACs also were allowed to make and implement laws concerning the all-important cultural policy,

⁸⁸⁷ McRoberts, *Catalonia*, 62–63.

⁸⁸⁸ Scott L. Greer, *Nationalism and Self-Government: The Politics of Autonomy in Scotland and Catalonia* (Albany: State University of New York Press, 2007), 122–23; José M. Magone, *Contemporary Spanish Politics, 2nd ed.* (London: Routledge, 2008), 168.

⁸⁸⁹ Francesc Pallares and Jordi Muñoz, “The Autonomous Elections of 1 November 2006 in Catalonia,” *Regional and Federal Studies* 18, no. 4 (2008): 450. For example, the Catalan branch of the right-of-centre *Partido Popular* is subject to strong central control. Magone, *Contemporary Spanish Politics*, 156. However, it has never polled well in Catalonia, usually garnering between 5 and 10 percent of the vote.

including autonomy regarding the promotion of languages other than Spanish.⁸⁹⁰ A large number of these competencies were already transferred to the ACs by the mid-1980s, though the process of policy devolution continued unevenly for the next two decades.⁸⁹¹ A number of policy areas are subject to shared jurisdiction between the central government and the governments of the ACs.⁸⁹² When the central government, in the aftermath of the 1981 coup attempt, tried to reduce the policy autonomy of the ACs by requesting their legislation to be subject to central government approval, the Constitutional Tribunal declared the new law *ultra vires*. The judges both defended the policy autonomy of the Autonomous Communities and, at the same time, demonstrated the relative political autonomy afforded by the constitutional system.⁸⁹³

While the policy autonomy of the ACs is extensive, it is certainly not exclusive or unlimited. For example, if the central government declares a particular jurisdiction to be of *general interest*, even if it falls under the decision-making scope of a given AC, then policies falling under that jurisdiction are to be decided upon jointly by both levels of government.⁸⁹⁴ This grants the central government the authority to set ‘framework legislation’ for policy. At times, this ‘general’ guideline legislation has been interpreted fairly broadly by the central government and the Constitutional Tribunal, thereby reducing the ACs’ policy autonomy, even affecting what are otherwise exclusive AC competencies.⁸⁹⁵ Critiques of such intrusions by the central government have been

⁸⁹⁰ See Section 148, Article 1 of the Spanish Constitution.

⁸⁹¹ Magone, *Contemporary Spanish Politics*, 209, Figure 5.6.

⁸⁹² Robert Agranoff and Juan Antonio Ramos Gallarín, “Toward Federal Democracy in Spain: An Examination of Intergovernmental Relations,” *Publius* 27, no. 4 (1997): 12.

⁸⁹³ *Ibid.*

⁸⁹⁴ *Ibid.*, 13. The central government’s decision must first receive assent of the Constitutional Tribunal.

⁸⁹⁵ Argullol and Bernadi, “Kingdom of Spain,” 255; Colino, “Constitutional Change Without Constitutional Reform,” 576–77.

particularly prominent in ACs such as Catalonia, most notably during the recent round of revisions to the Statute of Autonomy in 2006.⁸⁹⁶

The degree of the central government's intrusion in regional policy still has not been examined systematically, at least not in the available English-language literature. However, the fact that there has been a proliferation of different programs and policies in such important areas as health, education and social services among the ACs suggests that the extent of central government intervention for purposes of policy coordination and standardization has been comparatively limited.⁸⁹⁷ Indeed, just as one can notice that the policy autonomy of the ACs is at times limited by the framework legislation of the central government, one can also observe the ACs' increasing influence on the implementation of central state policies.⁸⁹⁸ This suggests that the central government also has lost some of its policy-making capacity. Even with framework legislation at its disposal, the central government is not always in a position to impose policies on the ACs.⁸⁹⁹

The *fiscal autonomy* of Autonomous Communities also has been enhanced over time. In aggregate terms, spending by the central government has declined from 87.3% of all public spending in 1981 to 46.4% in 2006.⁹⁰⁰ By 2006, the ACs were responsible for 37% of government spending.⁹⁰¹ While this is below the proportion of public spending undertaken by sub-state units in older federations, such as Canada and Switzerland, it is

⁸⁹⁶ Colino, "Constitutional Change Without Constitutional Reform," 267.

⁸⁹⁷ César Colino, "The Spanish Model of Devolution and Regional Governance: Evolution, Motivations and Effects on Policy Making," *Policy and Politics* 36, no. 4 (2008): 581.

⁸⁹⁸ *Ibid.*, 582.

⁸⁹⁹ One should, however, distinguish between the ability to prevent the other party from implementing legislation on its own terms, and the ability to implement one's own. Mutual vetoes can be extremely counter-productive for both sides. However, they also provide all actors with leverage which can be exploited in order to produce compromise solutions.

⁹⁰⁰ See Appendix D, Chart 8.

⁹⁰¹ *Ibid.*

higher than the figure for more recent federations, such as Belgium.⁹⁰² The central government has transferred progressively more tax points to the ACs, so that the ACs' "own resources" have increased from approximately 20 to about 60% of the fiscal resources at the disposal of the territorial units.⁹⁰³ For most of the period under consideration, however, most of the funds have come from central government grants, with the proportion of conditional grants steadily falling.⁹⁰⁴ As a result, the fiscal autonomy of the Autonomous Communities also has increased.

The general devolution of fiscal power hides disparities among different Autonomous Communities. For instance, the Basque Country and Navarra have separate fiscal arrangements, which are constitutionally entrenched and based on a 19th century system of autonomous finance. These two ACs, along with Catalonia, have managed to secure a greater per capita amount of national tax transfers during the early 1990s.⁹⁰⁵ However, Catalonia, like most other ACs, has since the beginning of devolution been subject to what is called the common system of financing. This means that Catalonia has a lower degree of fiscal autonomy than the Basque Country or Navarra, and that it receives a larger proportion of its funds via central government transfers or revenue sharing. The actual amount of these funds is subject to a formula negotiated between the central and AC governments. The amount is then harmonized within the Finance Ministers' Intergovernmental Council, also known as the Fiscal and Financial Policy

⁹⁰² Shah, "Comparative Conclusions on Fiscal Federalism."

⁹⁰³ Magone, *Contemporary Spanish Politics*, 212.

⁹⁰⁴ *Ibid.*, 212.

⁹⁰⁵ Robert Agranoff, "Inter-governmental Politics and Policy: Building Federal Arrangements in Spain," *Regional Politics and Policy* 3, no. 2 (1993): 7.

Council.⁹⁰⁶ In this sense, Catalonia has been similar to the other ACs, and has had less fiscal autonomy than the Basque Country and Navarra. Therefore, although ACs can negotiate a greater share of tax resources, it is a matter of bilateral agreement rather than a right to shape tax policy largely unilaterally.⁹⁰⁷

In a particularly fascinating and revealing series of negotiations surrounding the new Catalan Statute of Autonomy, Catalonia managed to extract significant concessions from the central government, which it received in lieu of fiscal autonomy akin to that of the Basque Country and Navarra. The ‘maximalist’ Catalan proposal for the Statute of Autonomy, negotiated during 2004 and 2005, included a proposal for full tax autonomy, whereby Catalonia would simply transfer part of the taxes collected on its territory to the central government.⁹⁰⁸ Rather than grant this level of fiscal autonomy, the central government instead agreed to transfer a greater proportion of taxes to the Catalan government. In addition, the central government committed itself to dedicating a greater share of infrastructural investment to Catalonia.⁹⁰⁹ This went some way towards addressing the ‘fiscal deficit’⁹¹⁰ that concerned the Catalan elites.

My assessment of the *dynamics* of accommodation in Spain shows that Catalonia, along with other ACs, has seen a steady increase in its autonomy over time. There have been few concerted attempts to stop or reverse this process, and all have failed. On most

⁹⁰⁶ Julio Lopez Laborda and Carlos Monasterio Escureo, *Regional Governments in Spain: Vertical Imbalances and Revenue Assignments*, Working Paper (Andrew Young School of Policy Studies, Georgia State University, 2006), 15, <http://aysps.gsu.edu/isp/files/ispwp0610.pdf>.

⁹⁰⁷ The ACs received more autonomy over tax policy only in 1997. From that year, they were able to “regulate important aspects of the “ceded tax” (tax brackets, tax rates and tax credits).” Helder Ferreira do Vale, *Political Elites and Fiscal Decentralization in Democratic Spain*, Working Paper, 2005, 110, http://www.aecpa.es/archivos/congresos/congreso_07/area06/GT26/FERREIRA-DO-VALE-Helder%28UCM%29.pdf.

⁹⁰⁸ Colino, “Constitutional Change Without Constitutional Reform,” 269.

⁹⁰⁹ Magone, *Contemporary Spanish Politics*, 242.

⁹¹⁰ The difference between the taxes collected by the central government in Catalonia and the government’s total spending in that community.

aggregate indicators, as Magone's excellent work shows, the Autonomous Communities have accumulated progressively more powers, have employed an increasing number of people in their bureaucracies, have spent an increasing proportion of public funding, and have seen their fiscal autonomy increase.⁹¹¹ However, this process has not always been smooth and unproblematic, as the following section will show. Here, I will only mention several attempts by the central government to limit the autonomy of the ACs.

The first such attempt came in 1982, with the law on the harmonization of autonomy among the 17 ACs.⁹¹² This particular attempt to arrest the process of decentralization in part resulted from the attempted military coup in February of 1981. The motives of the coup leaders were complex. Spain was already in the throes of a serious economic crisis; ETA's terrorism was still a factor; and it seemed as if the process of decentralization was getting out of hand. Thus, decentralization, among other factors, contributed to what was at the time perceived as the most serious threat to Spanish democracy, five years after the first democratic election.⁹¹³ Burned by this experience, representatives of both major parties agreed to limit the process of decentralization in order to stave off further challenges to the democratic regime.⁹¹⁴ Most of the law passed by the central government was later declared unconstitutional by the judges of the Constitutional Tribunal. Other attempts to limit the autonomy of the most ambitious ACs – that is, Catalonia and the Basque Country – were couched either in efforts to ensure greater symmetry of autonomy across the ACs or to limit the actual policy autonomy

⁹¹¹ Magone, *Contemporary Spanish Politics*, Ch. 5.

⁹¹² In the English-language literature, this law is known by its Spanish acronym, LOAPA.

⁹¹³ Stanley Black, *Spain Since 1939* (New York: Palgrave Macmillan, 2010), 102; Javier Cercas, *The Anatomy of a Moment: Thirty-Five Minutes in History and Imagination*, 1st ed. (New York: Bloomsbury, 2011), 28–29; Vincent, *Spain 1833-2002*, 222.

⁹¹⁴ Black, *Spain Since 1939*, 103.

through basic framework legislation, already discussed. The following section will explain the process of accommodation of Catalonia within the Spanish ‘State of Autonomies.’

6.4. Explaining Spain’s accommodative capacity

As with the other cases considered in this dissertation, the conditions giving rise to territorial autonomy have not necessarily been the same as those influencing its extent and durability. Spanish political elites agreed to decentralize power to sub-state units for two major reasons. The first was the need to establish the legitimacy of the new democratic regime within minority-inhabited regions of Spain. The second, and related, reason was the central elites’ concern with nationalist mobilization, influenced especially by the ETA’s terrorist activity. However, I will argue that the subsequent evolution of the ‘State of Autonomies’ has been strongly influenced by the political economy of Spain, particularly the causal variables I have outlined in Chapter 2. Had the Spanish central government been more statist and redistributive than it proved itself to be, it is likely that Catalonia’s autonomy would have been more circumscribed. Moreover, even the limits to this autonomy can be partially explained by political economy factors. What follows is a brief examination of the proximate causes of Spanish decentralization, followed by an investigation into the structural conditions that shaped the subsequent two decades of devolution.

Open nationalist mobilization in the Basque Country and Catalonia constituted an important dimension of anti-regime political activity taking place in the aftermath of Francisco Franco’s death in 1975. Franco’s handpicked heir, General Carrero Blanco,

was assassinated by the ETA in 1973.⁹¹⁵ The ETA's campaign of violence intensified in the last several years of Franco's regime, demonstrating the importance of the national question to practically all supporters of democratic reforms.⁹¹⁶ In addition, protests motivated by nationalist considerations took place in 1976 and 1977, in both the Basque Country and Catalonia. In 1976, when the fate of the regime was still far from clear— at the precise moment when Suarez was engaging in the sensitive balancing act of arranging a pacted transition— unrest broke out in the Basque Country. These events were a response to the perceived unwillingness of the central government to 'adequately' recognize Basque identity.⁹¹⁷ Large-scale nationalist demonstrations also took place in Catalonia during 1976 and 1977.⁹¹⁸ In September of 1977, a pro-autonomy demonstration in Barcelona drew a million people into the streets.⁹¹⁹ These protest were merely the most dramatic evidence of an already strong democratic and nationalist opposition movement which had been growing since the early 1970s.⁹²⁰ The mobilization of Catalan democratic forces facilitated the conflation of issues of autonomy and democracy⁹²¹, as well as providing the Catalan political elites with leverage during transitional

⁹¹⁵ Carr and Fusi Aizpurúa, *Spain, Dictatorship to Democracy*, 195.

⁹¹⁶ For the long-term trends in ETA attacks, see Encarnación. Encarnación, *Spanish Politics*, 94, Figure 6.1. The figures suggest that the bombing campaign actually intensified with the onset of democracy. The highest figures were recorded in 1978, 1979 and 1980. In 1980, the number of attacks approached 100. Later years never saw the same intensity of ETA-instigated violence.

⁹¹⁷ Carr and Fusi Aizpurúa, *Spain, Dictatorship to Democracy*, 218.

⁹¹⁸ Balcells, *Catalan Nationalism*, 169; Guibernau i Berdún, *Catalan Nationalism*, 63.

⁹¹⁹ Conversi, *The Basques, the Catalans, and Spain*, 142; Guibernau i Berdún, *Catalan Nationalism*, 63.

⁹²⁰ 1970 was the year of the founding of the Assembly of Catalonia, a clandestine political organization consisting of a number of Catalan political factions. Balcells, *Catalan Nationalism*, 164–65.

⁹²¹ Spanish unitarist nationalism was tainted by its association with Francoism. Xose-Manoel Nunez, "What is Spanish Nationalism Today? From Legitimacy Crisis to Unfulfilled Renovation (1975-2000)," *Ethnic and Racial Studies* 24, no. 5 (2001): 721.

negotiations.⁹²² Indeed, pro-democracy activism was stronger in Catalonia than in most of the rest of Spain.⁹²³

As a result of Catalan political activism, by the time of transition, most left-wing opposition parties had fully embraced the need for the institutional recognition of Spain's minority nations.⁹²⁴ If Spain were to be truly democratic, it would have to be accepted by the most numerous minority groups. In addition, the successful political mobilization of autonomist forces strengthened the negotiating leverage of the Catalan political elites, which ultimately ensured that at least some Catalan nationalist demands were heeded. As already stated, the Constitution of 1978 paved the way for the establishment the following year of Catalonia's Statute of Autonomy. Catalan nationalist historian Albert Balcells suggests that the Statute gave Catalonia significantly less autonomy than the Catalan elites initially sought, both in terms of funding and legislative decentralization.⁹²⁵ This is a proposition that is difficult to test. Nevertheless, the Statute was an important political and institutional opening that would constitute a platform for the acquisition of more autonomy in the future.

While the Socialists and most other opposition parties accepted the need for some degree of autonomy for the three minority nations, the right wing political forces – especially the ideological heirs of Franco among the political and military elites – were skeptical. Therefore, democracy-minded politicians moderated their demands, understanding that forging ahead too fast on the issue of autonomy could undermine

⁹²² Josep Benet, a member of the Assembly, noted that “without the mobilizing power of the Assembly and its prestige, the Suarez government and even some Spanish democrats would hardly have taken the Catalan national demands into account.” Guibernau i Berdún, *Catalan Nationalism*, 66. While one should take this statement with a dose of scepticism, the fact that Catalans were politically mobilized by the time of transition certainly did not hurt their cause.

⁹²³ Balcells, *Catalan Nationalism*, 167.

⁹²⁴ Nunez, “What Is Spanish Nationalism Today?” 721.

⁹²⁵ Balcells, *Catalan Nationalism*, 173.

democratic consolidation. Had it not been for this potential threat to the young democracy, it is likely that the pattern of devolution would have been different. Notwithstanding the moderation of democratic forces, even the limited early process of decentralization was going too fast and too far for the liking of the more radical right-wing army officers. The ‘autonomist fever’ was spreading not only in areas inhabited by the ethnically and linguistically distinct Catalonia, Basque Country and Galicia, but also in Castilian-speaking regions, foremost among which was the most populous Andalusia. As Greer notes,

[B]y 1978, the town halls and deputies of Galicia, the Basque Country, Aragon, Andalusia, Extremadura, and the two Castilles had all voted to constitute autonomous communities. Even the Spanish heartland began to split, with Leon considering its own autonomy and Castille itself dividing. In April and October 1979, Cantabria and La Rioja, previously thought integral parts of Castille, opted for autonomy.⁹²⁶

By 1981, six autonomous communities were established in Spain.⁹²⁷ The proliferation of autonomous movements, and the perceived fragmentation of Spain, prompted a group of officers to stage an unsuccessful coup in February of 1981.⁹²⁸ Subsequent patterns of decentralization suggest that, had it not been for this threat to democracy itself, decentralization likely would have proceeded faster and been more extensive than was actually the case. However, the threat of a right-wing backlash prompted the ruling UCD and the opposition PSOE to agree to the aforementioned law on the ‘harmonization of autonomy’ (LOAPA), which would have limited the extent of autonomy granted to the

⁹²⁶ Greer, *Nationalism and Self-Government*, 108.

⁹²⁷ Magone, *Contemporary Spanish Politics*, 195; Table 5.1.

⁹²⁸ Black, *Spain Since 1939*, 102; Cercas, *The Anatomy of a Moment*, 28–29; Conversi, *The Basques, the Catalans, and Spain*, 146; Vincent, *Spain 1833-2002*, 222.

ACs.⁹²⁹ Even as most of the LOAPA was declared invalid by the judges of the Constitutional Tribunal, the incident dampened the central government's early enthusiasm for decentralization. This brief flirtation with re-centralization would prove to be a short-lived trend, as the rest of this chapter will show.

The 1982 election is taken by many to signify the end of Spain's democratic transition. Spain's democracy withstood the election of a socialist party (PSOE) only seven years after the death of a right-wing dictator, and only five years following the demise of his regime.⁹³⁰ What was even more remarkable is that the election came only a year after a failed coup attempt. The socialist victory was historic. It was the first and the last time in Spanish history that the winning party secured the support of nearly 50% of eligible voters (48.3), with a very high electoral turnout of exactly 80%.⁹³¹ The turnout signified the population's appetite for political change. Such a dramatic victory also furnished the political capital that made it possible for a socialist party to implement a painful program of economic change, particularly for its most ardent supporters, the labour unions.⁹³² As has already been demonstrated, the PSOE's approach to governance was characterized by a fairly significant departure from that party's previous dedication to socialism and the embrace of the principles of free market and private enterprise.

The socialist government's pro-market zeal was tempered by the weakness of Spain's economy and the social bases of the PSOE's support. Thus, the central

⁹²⁹ Conversi, *The Basques, the Catalans, and Spain*, 146. A high ranking member of the PSOE stated that "after the Andalusia vote [for autonomy] we had to slow down the process, control it. Otherwise there would be a crisis, otherwise the transition would be in danger." Greer, *Nationalism and Self-Government*, 120. Ultimately, the Constitutional Tribunal declared the law to be *ultra vires*, paving the way for greater decentralization in the future. Luis Moreno, "Federalization and Ethnoterritorial Concurrence in Spain," *Publius* 27, no. 4 (1997): 71.

⁹³⁰ For this interpretation see, for instance Black, *Spain Since 1939*, 109; Tusell, *Spain*, 323–24.

⁹³¹ Black, *Spain Since 1939*, Appendix 3.

⁹³² *Ibid.*, 111.

government, during its first mandate in particular, engaged in a far-reaching program of ‘industrial reconversion’, investing significant resources in improving the competitiveness of both capital and labour.⁹³³ This process of economic change entailed high and increasing social costs, which could not have been ignored by a nominally socialist party with a still active left wing and strong union support.⁹³⁴ PSOE’s two factions – one headed by the economic liberals such as the first PSOE finance minister Miguel Boyer (as well as the minister of industry, Carlos Solchaga) and the other led by the deputy prime-minister Alfonso Guerra and the union leaders – often clashed with respect to the direction of government policy, especially during the late 1980s.⁹³⁵ On the other hand, their tenuous coexistence probably ensured PSOE’s longevity as the party of government.⁹³⁶ As Hamann notes, left-wing voters could still relate to the left-of-centre PSOE leaders, and the party itself periodically shifted toward a more socially sensitive position.⁹³⁷

For the PSOE, things came to a head in December of 1988, when, in the midst of general prosperity and sustained economic growth, major labour unions withdrew their support to the government and declared a general strike.⁹³⁸ The hostility between the unions and the economic liberals in Gonzalez’s government was already noticeable

⁹³³ Boix, *Political Parties, Growth and Equality*, Ch. 5; Share, *Dilemmas of Social Democracy*, Ch. 5.

⁹³⁴ For a very good summary of the internal politics of PSOE, see Share, *Dilemmas of Social Democracy*; Tusell, *Spain*, Ch. 5..

⁹³⁵ Hamann, “Linking Policies and Economic Voting,” 1041; Tusell, *Spain*, 336; 38. Alfonso Guerra was the organizational mastermind of the PSOE. While Gonzalez was to focus on governing the country, Guerra’s task was to ensure party discipline and organization. Mónica Méndez-Lago, “The Socialist Party in Government and in Opposition,” in *The Politics of Contemporary Spain*, ed. Sebastian Balfour (London: Routledge, 2005), 184; Tusell, *Spain*, Ch. 5.

⁹³⁶ Felipe Gonzalez remains Spain’s longest serving Prime Minister. He was in power from 1982 to 1996.

⁹³⁷ Hamann, “Linking Policies and Economic Voting,” 1042.

⁹³⁸ The unions were previously party to concertation agreements, helping the government in its goal of containing inflation by moderating unionized labour’s wage demands. Boix, *Political Parties, Growth and Equality*, 132.

during the PSOE's first mandate.⁹³⁹ At that time, unemployment increased from 16 to 21.5%.⁹⁴⁰ Simultaneously, the unions alleged, private companies were earning record profits. As a result, union leaders pressured the government over 'social wages.'⁹⁴¹ In response to these pressures, and with awareness of the possible electoral implications of ignoring them, the PSOE government increased public spending on social services. This was the only time during the period under study when Spain's public finances were rapidly deteriorating and when spending threatened to 'get out of control.' In a word, this is the only period during which Spain's strategy of governance could be said to have tended in the direction of statism.

Contrary to the predictions of this dissertation, the autonomy of Spain's territorial units was increasing precisely at the same time that the size of the government was growing. In fact, most of the competencies acquired by Catalonia and the Basque Country were devolved to those two ACs during the second half of the 1980s. This presents a challenge for the argument offered in this dissertation. Namely, the hypothesis that I have presented stipulates that a trend toward greater government spending should make the accommodation of more developed minority regions, such as Catalonia, more difficult to achieve. How was it then possible for Catalonia to carve out ever-greater fiscal and policy autonomy for itself?

I suggest several possible answers. The first is that Spain's Autonomous Communities, Catalonia included, had started the process of devolution from scratch. In other words, at the outset of the 1980s, the ACs had little fiscal or administrative capacity, distinguishing the Spanish context from the other three cases analyzed in this

⁹³⁹ Tusell, *Spain*, 338.

⁹⁴⁰ See Appendix D, Table 5.

⁹⁴¹ Black, *Spain Since 1939*, 116.

thesis. The gradual extension of autonomy to Catalonia from such a low level meant that the early operation of the Autonomous Communities did not require massive fiscal transfers from the central government. While the ACs did account for an increasing share of total public spending during the 1980s, the relative amounts were quite small. Whereas the communities accounted for approximately 4% of Spain's public spending in 1980, the figure for 1990 was still only about 20% of the total.⁹⁴² Had Catalonia and the other ACs already possessed a large administrative apparatus in 1980, the demands on the central government for fiscal resources likely would have been more onerous. Catalonia's march toward greater economic and fiscal autonomy likely would have been either arrested or reversed. From the standpoint of accommodative capacity, the timing of the two processes (the dynamics of devolution and the increase in Spanish public spending) was quite fortunate.

Yet, Catalonia and the other ACs did strengthen their autonomy vis-à-vis the central government, and under the circumstances of increasing public spending. I believe that the structural conditions can account for this fact as well. The first structural factor of importance is the wealth of Madrid, an island of development in the generally underdeveloped Castilian-speaking Spain. This was a luxury on which the central government was able to rely in order to devolve power to Catalonia and some of the other ACs. Indeed, between 1982 and 1993, the years of high growth in public spending, one can see that Madrid contributed a higher proportion of its income to the central budget than any other province. Whereas Madrid's net contribution⁹⁴³ was around 22% of its per

⁹⁴² Appendix D, Chart 8.

⁹⁴³ The difference between taxes collected in the province, and central government's public expenditure in the same.

capita provincial product, Barcelona's contribution was around 8% of the same.⁹⁴⁴ A similar trend could be observed during the following decade and a half. In their detailed study, Jiménez and Ortí have shown that, although Catalonia has consistently paid out more in services than it has received from the central government, its net contribution to the central budget was always significantly more modest than that of Madrid.⁹⁴⁵ Catalonia's allocation to the central government, as a share of its GDP, was always in the order of 40 to 60% of Madrid's contribution. The Basque country, on the other hand, never made a net contribution to the central government throughout the entire period! I will note the significance of this pattern later in the chapter.

As already observed in previous chapters, it is less politically costly to place the burden of territorial redistribution on the majority population than on the minorities. Minorities seldom have as strong of an identification with the common state as majorities. The Spanish central elites were fortunate to have the wealth of the Autonomous Community of Madrid to draw on in order to fund governmental expansion during the 1980s. Had Madrid been as poorly developed as the rest of Castilian-speaking Spain, the central government – at the same levels of public spending – would have had to depend to a much greater extent on the relatively more developed Catalonia and the Basque Country. In other words, the wealth of Madrid allowed the central government to partially accommodate Catalan (and Basque!) demands for the greater share of the fiscal pie, and correspondingly higher degree of fiscal autonomy.⁹⁴⁶

⁹⁴⁴ Boix, *Political Parties, Growth and Equality*, 148; Figure 6.5. In his study, Boix does not disaggregate spending by Autonomous Community, but rather by province. There are fifty provinces in Spain. In most cases, ACs include two or more provinces. Catalonia, for example, consists of four. The province of Madrid, however, corresponds to the Autonomous Community of Madrid.

⁹⁴⁵ See Appendix D, Table 9.

⁹⁴⁶ European Union's Structural and Cohesion Funds were another important contributor to the central government's budget. These further reduced the need of the central government to rely on the more

Nevertheless, Catalonia continued to contribute a sizeable share of its GDP to the central government budget during this period. Between 1991 and 2005, its net transfers to the central purse varied between 2.4 and 6.7% of GDP.⁹⁴⁷ Yet, complaints about Catalonia's fiscal deficit were not as prominent when the central government spent a higher proportion of the country's GDP in the early 1990s, as they were later in the decade and during the 2000s. How is this possible? The puzzle becomes easier to understand once one realizes that a greater share of the central government's public spending went to Catalonia during the 1980s than during the 1990s. The aforementioned industrial reconversion program funneled funds to already developed parts of the country, Catalonia included.⁹⁴⁸ In addition, as I have shown above, during the late 1980s and early 1990s, Catalonia's unemployment rate was quite high, even by Spanish standards. Therefore, a higher share of unemployment insurance outlays found their way to Catalonia during the early 1990s than during the second half of that decade. During the early 1990s, there was a strong correlation between Catalonia's unemployment rate and its contribution to the central government budget. For instance, its net contribution dropped to 2.4 and 3.3% of GDP in 1993 and 1994, the years in which its unemployment rate jumped to 17 and then 22%.⁹⁴⁹ Thus, during this period, spending in Catalonia was not as lopsided as it is sometimes presented. It was only during the late 1990s and into 2000s that the so-called fiscal deficit for Catalonia worsened. As a result, Catalan

developed, minority-inhabited regions. Net EU transfers amounted to an average of 1% of Spain's GDP between 1989 and 2006. Simón Sosvilla-Rivero and José Herce, "European Cohesion Policy and the Spanish Economy: A Policy Discussion Case," *Journal of Policy Modeling* 30, no. 3 (2008): 561. While the absolute sums were large, and helped Spain develop its infrastructure and physical capital, the relative sums were lower than those for other 'cohesion countries', such as Greece and Portugal. Harrison and Corkill, *Spain*, 180.

⁹⁴⁷ See Appendix D, Table 9.

⁹⁴⁸ Share, *Dilemmas of Social Democracy*, 78.

⁹⁴⁹ Compare Tables 5 and 9 in Appendix D.

demands for greater fiscal autonomy, as well as for greater policy autonomy, intensified, leading ultimately to negotiations for what would become the 2006 Statute of Autonomy.⁹⁵⁰

This discussion brings me to a necessary modification of the initial hypotheses presented in Chapter 2. The political representatives of relatively wealthy minorities tend to find statist strategies of governance less problematic if they are not strongly territorially redistributive. This was the case with Spain during the high-spending era of the 1980s and early 1990s. Ironically, as the central government's public spending decreased during the second half of the 1990s and beyond, the redistributive nature of this spending increased. Henceforth, Catalonia received progressively fewer funds, both in terms of direct central government spending, and in terms of inter-governmental transfers. The share of funds transferred to Catalonia as a percentage of all fiscal transfers to the ACs decreased from a high of 24.14% for the 1981-86 period to only 15.02% for the 2002-05 period.⁹⁵¹ During the same time, the share received by the Autonomous Community of Madrid, for example, increased from a very low 5% to about 12%.⁹⁵² Catalan demands for greater fiscal autonomy became more prominent as Catalonia received a smaller share of the pie. While it is possible that this was a coincidence, it is certainly unlikely. Rather, the unusual confluence of an increasingly redistributive, yet also increasingly liberal strategy of governance meant that Catalan grievances became more pronounced. With this in mind, one must note that levels of redistribution and

⁹⁵⁰ For a discussion of Catalan fiscal demands during the 2000s, see Colino, "Constitutional Change Without Constitutional Reform."

⁹⁵¹ Magone, *Contemporary Spanish Politics*, 214.

⁹⁵² *Ibid.*

public spending in Spain have been fairly low, especially in comparison to most of the other larger European states.

The particular configuration structural and policy factors in the Spanish political economy, in addition to influencing the accommodative capacity of the central government, shaped the nature and intensity of Catalan demands. This dynamic reduced the conflict between the government of Catalonia and the central government in Madrid. Namely, demands for Catalan autonomy would likely have been more intense had the Spanish central government adopted an unambiguously statist-redistributive strategy of governance. As already mentioned, Catalonia was governed by the centre-right *Convergència i Unió* between 1980 and 2003. While CiU did engage in conflict over the distribution of competencies with the central government, it was also a pro-business party, placing a great deal of emphasis on political stability and free markets.⁹⁵³ In other words, its preferred strategy of governance was close to that of both the PSOE and the PP governments in Madrid.⁹⁵⁴

The programmatic affinity among the CiU and both the socialist and conservative governments was demonstrated most forcefully in the period between 1993 and 2000. During this time, the CiU provided parliamentary support first to the minority Socialist government (1993-1996) and subsequently to the conservative minority government of José Maria Aznar (1996-2000). Throughout this period, open conflict between the CiU and the party in government, in which the former threatened to withdraw its support if its most radical demands were unmet, failed to materialize. In other words, the CiU did not

⁹⁵³ Greer, *Nationalism and Self-Government*, 127; Guibernau i Berdún, *Catalan Nationalism*, 122; 130. As Greer notes, the *Convergència i Unió* leadership did not insist on more competencies at this point, since it was beholden to Catalan business interests which esteemed stability first and foremost. Greer, *Nationalism and Self-Government*, 133.

⁹⁵⁴ Agranoff and Gallarín, "Toward Federal Democracy in Spain," 15.

use its substantial political leverage in order to make a push for more extensive autonomy.⁹⁵⁵ Scott Greer has argued that the reason for the CiU's relative moderation was the influence of Catalan elites, including business elites, over the party.⁹⁵⁶ His argument is another way of noting that the Catalan and Spanish political elites found much to agree on in terms of the overall strategy of governance.

Why did the pro-business right have such a strong and sustained political presence in Catalonia? Part of the explanation is to be found in the very fact that Catalonia is one of the wealthiest regions of Spain, containing large middle and upper classes. That is to say, the region is home to a large constituency traditionally dedicated to economic liberalism. Comparison with the other three cases in this respect is quite instructive. Slovene and Croat political elites, both governing relatively more developed constituent units of Yugoslavia, also tended to endorse pro-business economic strategies, especially in comparison to their counterparts from the less developed republics. On the other hand, political elites in the relatively less developed Quebec and Slovakia were more open to statist strategies of governance. The convergence of governing strategies between the minority-inhabited territorial units and the central government, apparent both in Spain and in Canada, made the conflict over the distribution of powers less pronounced than in Yugoslavia and Czechoslovakia. In the latter two cases, the strategies of governance endorsed by central governments were in sharp conflict with the preferences of the relevant minority communities.

⁹⁵⁵ Catalonia did manage to secure further fiscal transfers as a result of the CiU's support of the central government. Moreno, *The Federalization of Spain*, 132.

⁹⁵⁶ Greer, *Nationalism and Self-Government*, 133.

As the political position of the CiU weakened during the second half of the 1990s, Catalan demands for greater political and fiscal autonomy intensified.⁹⁵⁷ The outcome of these pressures was the Catalan proposal for a new Statute of Autonomy, which was eventually adopted in 2006. Among other elements, the proposal contained a fairly ambitious plan for much more extensive tax autonomy, along the lines of the system granted to the Basque Country and Navarra.⁹⁵⁸ The central government's response was ambiguous. It refused to grant full fiscal autonomy to Catalonia, but in exchange offered increased fiscal transfers as well as increased infrastructural investment in the region.⁹⁵⁹ What is particularly important from the perspective of this dissertation was the reason that the central government gave for refusing the Catalan demand for full fiscal independence. The common state elites considered Catalonia to be 'too big' to merit such an increase in fiscal autonomy. Whereas the Basque Country and Navarra only contribute approximately 8% to Spain's GDP, Catalonia's figure is closer to 20%. Foregoing Catalan revenues would have been far more costly and would have impinged on the central government's ability to fund even its fairly modest (by comparison to other EU member states) policy initiatives.⁹⁶⁰

Despite resisting Catalonia's demands for more extensive fiscal autonomy, the central government nevertheless agreed to funnel a greater proportion of its public spending to that Autonomous Community. This concession was supposed to address Catalan elites' complaints of unfair fiscal treatment by the common state government,

⁹⁵⁷ The CiU finally lost power in the 2003 regional elections. It was replaced by a coalition of left-wing parties, which, unsurprisingly, demanded a greater piece of the fiscal pie for Catalonia. Magone, *Contemporary Spanish Politics*, 240.

⁹⁵⁸ Colino, "Constitutional Change Without Constitutional Reform"; Magone, *Contemporary Spanish Politics*, 242. Another notable demand was the recognition of Catalonia as a nation. This would prove to be particularly contentious. Magone, *Contemporary Spanish Politics*, 242.

⁹⁵⁹ Colino, "Constitutional Change Without Constitutional Reform."

⁹⁶⁰ Cesar Colino, personal interview, October 29, 2009, Madrid, Spain.

which consistently raised more funds in Catalonia than it spent there. While this represents a multi-year fiscal commitment, it seems to have been preferable to permanently losing the income that the centre derives from Catalonia through greater fiscal autonomy.⁹⁶¹ Here, the contrast with Canada is quite stark. In Canada, the federal government permanently surrendered a significant proportion of the funds it raised in the province of Quebec. In Canada's case, increased fiscal autonomy for Quebec did not compromise the governing capacity of the federal government, which was able to rely on a tax base of relatively wealthy majority-inhabited provinces, such as Ontario, Alberta, and British Columbia. Yet, Spain's economic geography was different, with different implications for the central government's ability to fund its policy commitments.

The Spanish case raises an interesting issue regarding the feasibility of a *laissez-faire* strategy of governance in polities that encompass wealthy minority-inhabited areas and relatively underdeveloped majority-inhabited regions. Certainly, Spain's public spending is actually smaller than any other larger Mediterranean EU member state. For instance, in 2006, at the end of the period analyzed in this chapter, Spain spent approximately 38% of its GDP on public services. By contrast, Portugal's figure was 46%, Italy's 49% and Greece's 43%.⁹⁶² Nevertheless, with most of Spain's population living in areas with a less than average per capita income, the redistributive pressures on the central government tend to be strong, particularly when the government has the opportunity to draw on the fiscal resources of wealthier regions. If the central government had surrendered a significant chunk of its fiscal capacity to Catalonia, it would have

⁹⁶¹ Of course, without the wealth of Madrid, even this commitment to greater fiscal 'fairness' for Catalonia would not have been feasible. After all, Madrid contributes approximately 18% to Spain's GDP, a figure similar to Catalonia, with a smaller population base.

⁹⁶² OECD, "OECD Factbook." The Spanish figure increased as a result of the recent economic crisis, and the return of unemployment rates to 20%.

undercut its future ability to redistribute resources. A similar pattern occurred in Yugoslavia during the second half of the 1960s. While most of the central elites endorsed a *laissez-faire*, non-redistributive strategy of governance, the redistributive pressures from the less well-off regions continued to undermine the accommodative capacity of the central government.

Of course, the political economy factors outlined in this chapter only part explain the Spanish pattern of decentralization. Other issues, which partially account for the process of devolution in Spain, include party politics, inter-territorial competition, and the state ideologies held by different parties. Most scholars of Spain have noted that Catalonia's autonomy has tended to increase when its political elites have found themselves supporting minority governments in Madrid.⁹⁶³ During these periods, the central government has devolved more fiscal resources to Catalonia (and the other ACs). This happened during the last Gonzalez government (1993-96), during the first Aznar government (1996-00), and for the duration of Zapatero's time in office (2004-present). While the influence of Catalan parties certainly helps explain part of the pattern of devolution observed in Spain, it only goes so far. For example, no firm correlation seems to exist between the devolution of power and Catalanist party influence in Madrid. Most legislative powers were devolved during the majority Gonzalez governments in the 1980s.⁹⁶⁴ Moreover, once legislative powers and fiscal resources have been devolved, the central government did not engage in systematic attempts to turn back the clock, though

⁹⁶³ Agranoff and Gallarin, "Toward Federal Democracy in Spain," 33; Colino, "The Spanish Model of Devolution and Regional Governance," 580; Mireia Grau Creus, "A Step Backwards or a Step Forwards? The Politics and Policies of Decentralization under the Governments of the Partido Popular," *South European Society and Politics* 10, no. 2 (2005): 270; Greer, *Nationalism and Self-Government*, 132; Moreno, *The Federalization of Spain*, 141.

⁹⁶⁴ Magone, *Contemporary Spanish Politics*, Ch. 5.

some observers argue that the second Aznar government used basic laws to limit further extensions of autonomy.⁹⁶⁵

Other authors have suggested that Spain's process of devolution can be explained by competition among autonomous communities for greater power and resources. For Luis Moreno, the 'federalization of Spain' has been strongly influenced by the preference 'laggard' AC governments for more extensive legislative powers and fiscal resources.⁹⁶⁶ Periodically, the central government has tried to equalize the conditions of autonomy among the territorial units. By doing this, it attempted to weaken the bargaining position of the minority regions, particularly Catalonia and the Basque Country, in future rounds of negotiations about autonomy.⁹⁶⁷ Yet, this maneuver simultaneously reduced the government's future ability to accommodate demands for asymmetric autonomy. In other words, because the Spanish constitutional system has evolved in the direction of at least potentially greater symmetry, any extension of autonomy to Catalonia and the Basque Country threatens to be generalized across the board. Even if the government were willing and able to reduce its policy and fiscal influence in minority-inhabited regions, it certainly would not want to relinquish them in the rest of the country. Therefore, the openness to symmetric federalism in principle can be a potential obstacle to the accommodation of minority-inhabited regions, similar to the situation that developed in Canada under Prime Minister Trudeau.

Yet another explanation for the extent and sustainability of Catalonia's autonomy relates to the central elite ideas regarding the appropriate territorial organization of the

⁹⁶⁵ Cesar Colino, personal interview, October 29, 2009, Madrid, Spain.

⁹⁶⁶ Moreno, "Federalization and Ethnoterritorial Concurrence in Spain"; Moreno, *The Federalization of Spain*.

⁹⁶⁷ Agranoff and Gallarín, "Toward Federal Democracy in Spain," 15.

state.⁹⁶⁸ For example, since the transition socialist politicians have been far more accepting of devolution than their conservative counterparts.⁹⁶⁹ PSOE prime ministers (Gonzalez and Zapatero) were more open to decentralization than the conservative José Maria Aznar.⁹⁷⁰ Nevertheless, even after the establishment of the conservative majority government in 2000, Aznar did not reverse the gains in autonomy already achieved. However, he did slow down further devolution of power. One could argue that the particular ideological tendencies among central government elites were far more important during the early years of Spanish democracy, in the late 1970s and early 1980s, when far right figures in the government and the military considered any extension of autonomy as a threat to Spain's unity (and were even willing to contemplate violence in order to stop this process). After democratic consolidation, the central government did not attempt to recoup the legislative powers and fiscal resources attained by the Autonomous Communities.

6.5. Conclusion

Throughout the first decade of democratic transition, Spain's political elites strove to 're-join' Europe. This project had a political and economic dimension. The latter entailed the establishment of a modern, market economy. Consequently, since the establishment of the State of Autonomies in 1979-80, Spain has been less interventionist, especially in terms of public spending, than the majority of its European counterparts.

⁹⁶⁸ These ideas are intimately linked with elite attitudes toward national identity.

⁹⁶⁹ Balfour and Quiroga, *The Reinvention of Spain*, Chs. 4 & 5.

⁹⁷⁰ On PP's policies and attitudes toward peripheral nationalism and decentralization, see Javier Astudillo and Elena García-Guereta, "If It Isn't Broken, Don't Fix It: The Spanish Popular Party in Power," *South European Society and Politics* 11, no. 3-4 (2006): 413-14; Llamazares, "The Popular Party and European Integration," 322.

Under these circumstances, the Spanish central government was able to progressively increase the autonomy of its territorial units, including most notably Catalonia and the Basque Country. Had the government been significantly more interventionist, it would have had to rely more heavily on the resources of the more developed parts of Spain, including Catalonia. This would have entailed, as in Yugoslavia during its own statist period, more significant limits on the policy and fiscal autonomy of territorial units.

Yet, as I have shown in this chapter, during the 1980s and early 1990s, the demands of economic transition were such that the central government had to temper its *laissez-faire* strategy with statist policy elements. These included the creation of a rudimentary welfare state to address the politically problematic rising unemployment, as well as government investments aimed at improving the competitiveness of both public and private capital. During this decade, the extension of fiscal autonomy lagged behind the transfer of powers to the autonomous communities, including Catalonia. Whatever fiscal gains Catalonia made were due in part to the fact that the central government was able to rely disproportionately on the resources of a wealthy majority-inhabited enclave – Madrid. Furthermore, the spending of the late 1980s and early 1990, the highest it has been in Spain since the transition, was to a significant extent directed toward Catalonia itself. It was only once central government spending became more redistributive that Catalan demands for greater fiscal autonomy became more vehement.

These demands culminated in the Catalan proposal for a new Statute of Autonomy, which was finally passed into law by the Spanish Parliament in 2006. One of the key demands articulated in the proposal entailed greater fiscal autonomy for Catalonia, modeled on the arrangement applied to the Basque Country and Navarra. The

central government's response to this demand was indeterminate. On the one hand, it refused to grant Catalonia full fiscal autonomy. On the other, it made a commitment to redress what is in Catalonia perceived as a kind of horizontal 'fiscal deficit': the fact that Catalonia has consistently contributed more to the general budget than it has received. Thus, even though the Spanish government remains committed to relatively low levels of public spending and to market-led economic growth, it is also concerned with its ability to implement policy in the future if it foregoes a large proportion of the revenues it raises in Catalonia. This speaks to the difficulty of having a consistently *laissez-faire* policy in a state in which the majority population lives in *relatively* less developed areas. The parallel with Yugoslavia is suggestive. Even though Yugoslav leadership attempted to implement *laissez-faire* reforms during the late 1960s, it was ultimately unable to withstand the statist backlash of the less developed regions. Of course, Yugoslav leadership was committed nominally to socialism, while Spanish leadership remains committed to capitalism, making a statist backlash in the latter less likely. However, the Spanish case also attests to the tensions inherent in a *laissez-faire* model where the majority population is less developed.

Yet another obstacle to further autonomy for Catalonia has been the tendency of the Spanish political elites to insist over time on a more even devolution of power to the Autonomous Communities. Under these conditions, granting greater powers to Catalonia might mean that the central government will lose increasingly more of its policy leverage over the non-minority ACs as well. If the Spanish elites were to accept asymmetric federalism as the appropriate model of the state's territorial organization, this problem would not be as pronounced. Yet, this has not been the case so far. Overall, as in all of

the other cases, the political economy factors are shown to have had a significant, if at times ambiguous, impact on the accommodative capacity of the Spanish state. However, institutional factors, including the patterns of devolution, have also played a significant role in this respect.

CHAPTER 7: Conclusion

7.1. Introduction

To many scholars concerned with the stability of multinational states, territorial autonomy offers the theoretical possibility of avoiding the extremes of assimilation and secession. The debate about the merits of decentralization of power in divided societies is still far from settled.⁹⁷¹ Nevertheless, we know much more about the possible impact of ethnofederalism on the stability and survival of multinational states than we do about the origin, extent, and sustainability of ethnofederal ‘bargains’. Yet, particular patterns of accommodation do matter, both to those who demand autonomy, and to those who must decide how to respond to such demands.⁹⁷² Attempts to revoke or reduce the existing levels of territorial self-rule can be profoundly destabilizing, as can be attested to by the examples of Yugoslavia and Czechoslovakia.⁹⁷³

⁹⁷¹ Some of the more recent works still struggle with the question. Philip Roeder’s recent book is a detailed study suggesting unambiguously that territorial autonomy tends toward instability and state breakup. Roeder, *Where Nation-States Come from*. On the other hand, Dawn Brancati’s recent research suggests that the impact of decentralization depends on the party systems that develop in a given state. In short, decentralization ‘works’ if party-systems are integrated, so that minority interests get represented in state-wide parties. If minority interests are articulated through regional parties, instability is the more likely outcome. Dawn Brancati, *Peace by Design: Managing Intrastate Conflict Through Decentralization* (Oxford: Oxford University Press, 2009).

⁹⁷² This much is clear from the heated debates in the two surviving states covered in this dissertation. Quebecois, Catalan and Basque scholars (and politicians) continue to dispute the depth and quality of accommodation, whereas their majority counterparts continue to insist on the extensiveness of federal arrangements prevailing in both states. For a Catalanist perspective, see Ferran Requejo, “Revealing the Dark Side of Traditional Democracies in Plurinational Societies: The Case of Catalonia and the Spanish ‘Estado de las Autonomías’,” *Nations and Nationalism* 16, no. 1 (2010): 148-168.. For a Québécois view, see Caron and Laforest, “Canada and Multinational Federalism.”

⁹⁷³ For Yugoslavia, see Susan L Woodward and Brookings Institution, *Balkan Tragedy: Chaos and Dissolution After the Cold War* (Washington, D.C: Brookings Institution, 1995), Ch. 4. and Branka Magaš, *The Destruction of Yugoslavia: Tracking the Break-up 1980-92* (London: New York, 1993). For Czechoslovakia, see Young, *The Breakup of Czechoslovakia*.

The aim of this dissertation has been to contribute to a better understanding of variability in the design⁹⁷⁴ and durability of ethnofederal institutions.⁹⁷⁵ In developing the explanatory framework presented in this thesis, I have attempted to move beyond the limitations of standard studies of ethnopolitics. Most of the scholarship on ethnonationalism has tended to focus disproportionately on ‘ethnic’ causal factors in explaining the outcomes of ethnopolitical contests. As this work has shown, however, non-ethnic factors, such as elite approaches to everyday governance, can have a profound impact on the development of ethnofederal arrangements. I have paid particular attention to the political economy of multinational states.

Meaningful territorial autonomy presupposes adequate fiscal resources. Minority political elites can neither build autonomous institutions of governance, nor deliver programs promised to their constituents, if they have limited financial means at their disposal. Yet, not every central government is equally positioned to accommodate demands for extensive fiscal autonomy. Much depends on the relative fiscal capacity of minority- and majority-inhabited regions, and on the governing strategies endorsed by central state elites. Certain configurations of these variables are more conducive to accommodation than others. The present chapter provides an overview of the main conclusions of this study. It also points to the limitations of the theoretical framework presented. In addition, it contains a brief examination of the applicability of the hypotheses outlined in Chapter 2 to several other cases. I conclude with some suggestions for the future directions in the study of accommodation in multinational polities.

⁹⁷⁴ By ‘design’, I mean specifically the scope of autonomy extended to minority-inhabited territorial units.

⁹⁷⁵ I have argued in Chapter 1 that the origins of federal arrangements in multinational states are far too contingent to be subject to a parsimonious theory. Nevertheless, this is a subject that should also be pursued. The work of Stein Rokkan offers an excellent starting point in this direction. Rokkan, *Economy, Territory, Identity*; Rokkan, *State Formation, Nation-Building, and Mass Politics in Europe*.

7.2. Summary of Findings

Structural explanations of politics are seldom fully satisfying. Simple structural models do too much violence to the complexity of the real world and generally do not allow for nuanced explanations. Nevertheless, macrohistorical structural analyses remain important for they can suggest how a few key factors may interact and influence the organization of possibilities for political action.⁹⁷⁶ This is particularly true if we seek to understand what Charles Tilly referred to as “big structures and large processes”, including those related to state development.⁹⁷⁷ If conducted with sensitivity to the contingencies of the particular context to which they are applied, such analyses can offer a significant amount of purchase in understanding phenomena such as institutional development.⁹⁷⁸ In this dissertation, I have shown how the economic geography of multinational states combines with the central elites’ strategies of governance to shape the accommodation of minority demands for territorial autonomy. The examination of each of the selected cases has revealed the complex interaction of political economy and other variables that have a bearing on the dynamics of decentralization. In this section, I distil the main conclusions resulting from my research, and discuss the limitations of the theoretical framework presented here.

In Canada, the fact that majority-inhabited areas were on average wealthier than minority-inhabited Quebec meant that the central government could employ its

⁹⁷⁶ Kenneth Waltz offered an appealing, if pedestrian, summary of the disadvantages and advantages of structural explanation: “Structures never tell us all that we want to know. Instead they tell us a small number of big and important things.” Kenneth N. Waltz, “Reflections on Theory of International Politics: A Response to My Critics,” in *Neorealism and Its Critics*, ed. Robert O Keohane (New York: Columbia University Press, 1986), 329.

⁹⁷⁷ Charles Tilly, *Big Structures, Large Processes, Huge Comparisons* (New York: Russell Sage Foundation, 1984).

⁹⁷⁸ For a useful distinction between institutional development and institutional design, see Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton University Press, 2004), Chs. 4 & 5.

moderately statist strategy of governance while at the same time accommodating Quebec's aspirations for greater autonomy. Granting Quebec the right to opt out of a range of federal programs, and devolving fiscal autonomy to the province, did not undercut the central government's ability to expand social programs in the rest of Canada. The federal government was able to draw on the tax base of the more developed Anglophone provinces in order to fund those programs. When the underlying economic conditions changed during the 1970s, a slight shift in the federal strategy of governance also influenced accommodative patterns. High rates of economic growth during the 1960s were replaced by economic stagnation, rising inflation, and unemployment. The federal government began to pay greater attention to curtailing growth in public spending, though it did not seek to reduce government outlays overall. Hence, the government became less willing to devolve further powers and funding to the provinces, Quebec included.

Democratic Czechoslovakia provides a useful contrast to the Canadian case. Here, the majority-inhabited region, the Czech Republic, was also economically more developed than the minority-inhabited region of Slovakia. However, the central government's laissez-faire economic strategy indirectly dampened the willingness and ability of federal and Czech elites to accommodate Slovak demands for more autonomy. The negative effects of Prague's liberal economic strategy were much more pervasive in Slovakia than in the Czech Republic. The Slovak leadership intended to use its institutional leverage, stemming from Slovakia's territorial autonomy, in order to soften the impact of economic reforms in the eastern part of the country. The Czech elites, at both levels, understood that their liberal strategy of governance would have been

compromised by extensive autonomy for Slovakia. The Czech elites therefore became increasingly less willing to accommodate Slovak demands. Ultimately, the inability of the two sides to agree on the new institutional architecture for Czechoslovakia resulted in the country's breakup.

In Yugoslavia, the statist strategy adopted by the common-state elites had the opposite effect than it did in Canada. Namely, the fact that wealth in Yugoslavia was concentrated in the minority regions meant that the central government had to rely on the more developed Slovenia and Croatia to fund its statist policy initiatives. Yugoslavia's statist strategy of governance gave way to a socialist version of laissez-faire economics during the second half of the 1960s. The federal government initiated a reduction of the state's role in the economy. Furthermore, common-state elites also became much more accepting of the social and territorial inequalities associated with a liberal economic strategy. Thus, the fiscal demands of the federal government were reduced, enabling it to grant greater fiscal autonomy to wealthier republics. By 1972, for reasons elaborated in Chapter 5, the federal elites reverted to a statist strategy of governance. The redistributive mandate of the central state became constitutionally entrenched. The federal government was again in need of the fiscal resources of Yugoslavia's wealthiest and most autonomy-minded republics. In these circumstances, the federal elites began exerting pressure on the already attained autonomy of Slovenia and Croatia. I will discuss the ultimate outcome of these efforts below.

By contrast, the process of accommodation in Spain was far less uneven, particularly in the aftermath of the failed coup in February of 1981. Spain's Autonomous Communities (ACs), and particularly Catalonia and the Basque Country, gained steadily

more autonomy between 1980 and 2006. Just as in Yugoslavia, in Spain the most developed regions were inhabited by members of the minority nations. Yet, in this case, the government was committed to a moderately laissez-faire strategy of governance throughout the period under study. This strategy allowed the Spanish government to yield progressively more powers and funding to the minority-inhabited regions, though some of this decentralization was generalized to other ACs as well.

Implicit in the preceding summary is the importance of the compatibility of strategies of governance adopted by central and sub-state elites. Where both levels of government adopt similar strategies, the path to durable accommodation of claims for territorial autonomy should be less fraught than where the opposite is true. If both governments adopt similar policies, jurisdictional conflict might occur nonetheless, as was the case with the relationship between the government of Quebec and the federal government of Canada. Yet, where two radically different policy strategies are adopted, territorial autonomy offers minority elites the institutional resources with which they can subvert the implementation of the central state strategy of governance. This was particularly obvious in the cases of Czechoslovakia and Yugoslavia during the 1970s. Such clashing policy paradigms give the central elites incentives to limit territorial unit autonomy. On the other hand, the analysis of the Spanish and Canadian cases has demonstrated that policy alignment reduces the central government's incentives to curtail autonomy.

One cannot predict the minority elites' policy preferences solely on the basis of the minority's position in the ethnic division of labour. Nevertheless, the cases listed here point to the possible correlation between the two. Where minority-inhabited regions are

relatively less developed, their political leaders tend to be more willing to accept statist strategies of governance for their territory. This was the case with the Québécois elites during the 1960s and with the Slovak political leaders during the early 1990s. In both instances, autonomy was sought in order to implement statist policies to improve the material circumstances of the minority nation in question. On the other hand, where minority-inhabited regions are more developed relative to the majority-inhabited areas, minority political elites tend to subscribe to more liberal strategies of governance. This was the pattern observed in both Slovenia and Croatia, as well as in the Basque Country and Catalonia.⁹⁷⁹

How persuasive are the conclusions drawn from the analysis of these four countries? Even if one disputes the comparability of the cases analyzed, due to, for example, fundamental contextual differences,⁹⁸⁰ the following questions remain. Had the governing strategies in each case been different, would accommodative processes have varied in the opposite direction from the ones observed? Conversely, had the strategies of governance remained the same, but the relative distribution of wealth different, would accommodation have taken a different course? I believe I have shown sufficient evidence to answer both questions in the affirmative. As the empirical chapters have suggested, however, the process of accommodation is never fully unambiguous and unidirectional. Factors other than those highlighted in this dissertation play an important role in influencing precisely how inter-governmental relations unfold in each instance. The idiosyncrasies of each case leave their own imprint on the accommodative capacity of central governments.

⁹⁷⁹ The strongest parties in each case, the Basque Nationalist Party and *Convergència i Unió*, are nationalist centre-right parties with pro-business policy inclinations.

⁹⁸⁰ I address some of these in Chapter 2.

In the Canadian case, the process of devolution slowed down during the 1970s, in part due to the role played by Canada's then Prime Minister, Pierre Elliot Trudeau. Trudeau was a vehement opponent of Québécois nationalism, and was as such hostile toward Quebec's demands for special status and asymmetric autonomy. He managed to steer policy toward that province in a direction different from that prevailing under his predecessor, Lester B. Pearson. Still, Trudeau did not manage to reverse the flow of autonomy to Quebec. At most, he managed to slow it down and generalize decentralization to other provinces, in a bid to construct a more symmetric federation and undercut the *de facto* special status for Quebec.⁹⁸¹

In states with a large number of constituent units, the adoption of symmetric federalism, particularly in its fiscal dimension, may have negative implications for the accommodative capacity of the central government.⁹⁸² Whereas a common-state government might be able to forgo the funds it obtains from one constituent unit, it certainly cannot afford to do so with all of them. As a result, where autonomy is extended to all territorial units in a symmetrical manner, the maximum extent granted to each sub-state government will likely be less than the maximum extent of autonomy that could be given to the minority unit under asymmetric patterns of devolution. Therefore, the particular model of decentralization has its own independent causal impact on the accommodative capacity of governments.

⁹⁸¹ I am referring particularly to the Established Programs Financing, which granted all provinces greater autonomy over the provision of a number of social programs, while reducing the federal commitment to fund the same. See Chapter 3.

⁹⁸² On recent contributions to the debates on symmetry and asymmetry in federal states, see John McGarry, "Asymmetry in Federations, Federacies and Unitary States," *Ethnopolitics* 6, no. 1 (2007): 105. and Robert Agranoff, *Accommodating Diversity: Asymmetry in Federal States* (Baden-Baden: Nomos, 1999).

In Czechoslovakia, the dynamics of accommodation were influenced by two factors that are not part of the explanatory framework offered in this thesis. The first was the country's transitional context. In the early months of the democratic regime, both Czech and Slovak politicians sought to limit the influence of the federal state. For the Czech elites, the goal was to divest the previously all-powerful federal centre of its institutional powers, and therefore ensure full democratic consolidation. In effect, both sides agreed on early decentralization, but for quite different reasons. Of course, this harmony of interests was short-lived.

The second factor which influenced the medium-term dynamics of devolution in Czechoslovakia was the constitutional framework inherited from the Communist era. The 1968 Constitutional Law of the Federation established a bi-cameral parliament, with two legislative chambers of equal power. The Law granted a simple majority of either Czech or Slovak deputies in the upper house the right to veto federal government policy. The veto applied to all constitutional changes as well. In these circumstances, the political preferences of federal political elites and their Czech counterparts for a more centralized federation remained unfulfilled. Slovak representatives were able to undermine all attempts at centralization by using their legislative veto. Certainly, few minority nations have the kind of leverage that the Slovaks wielded between 1989 and 1992. Without such influence at the centre, it is quite likely that Slovakia's autonomy would have been sharply curtailed.

Yugoslavia demonstrates a similar limit to the central argument I present in this dissertation. According to the hypotheses presented in Chapter 2, the Yugoslav leadership's return to a statist policy paradigm during the early 1970s should have

resulted in a more limited autonomy for Slovenia and Croatia. Indeed, by all accounts, the federal government was attempting to induce these two republics to ramp up their fiscal contributions to the less developed regions of Yugoslavia. These pressures did not result in a significant reduction of autonomy for Slovenia and Croatia. Just as in Slovakia, elites of both of these republics were by the mid-1970s in a position to veto any federal proposals they did not find to their liking. The confederal organization of the central government, in other words, precluded the actualization of the preferences of both the federal elites and the political elites in Serbia and the less developed republics.

The Spanish case also offers some important modifications to the hypotheses outlined in Chapter 2. The first is that accommodative outcomes might also hinge on the timing of demands for greater autonomy. Namely, if such demands are articulated when the sub-state institutions are still in their embryonic stage, the fiscal and policy implications for the central government are likely to be modest. Thus, in 1980, the Catalan government was underdeveloped, and therefore needed fewer fiscal resources than it would require fifteen years later. Therefore, fiscal transfers to that Autonomous Community were modest as well. Early on, the progressive decentralization of power had little potential to disrupt the governing strategy of the central state elites, such that the political economy factors outlined in this dissertation might not have had a strong causal impact. As institutions of autonomous governance are expanded, the variables presented in Chapter 2 are likely to start exerting greater causal traction.

The second qualifier issuing from the analysis of the Spanish case relates to the role of minority parties in common-state legislatures. A number of observers of Spanish politics have noted that Catalonia made advances in fiscal autonomy when the Catalan

regional parties held the balance of power in the Spanish parliament. During such political openings, minority elites have the opportunity to enhance the autonomy of their territorial unit. Yet, as Scott Greer has shown, the willingness of minority elites to use their leverage depends on the factors outlined in this dissertation.⁹⁸³ In this respect, Catalan political elites did not wish to jeopardize Spain's political stability by excessive institutional demands, since they knew that such instability would have hurt Catalan business interests as well. In addition, as I have shown in Chapter 6, most of the policy competencies were actually transferred to Catalonia during the majority governments of Felipe Gonzalez, rather than when the Catalanist CiU held the balance of power in the *Cortes Generales*.

The analysis of the four cases has shown that the pressures for or against decentralization tend to materialize as expected by the explanatory framework presented in Chapter 2. Yet, the actual accommodative outcomes depended not only on the political economy factors highlighted in this work, but on several other variables as well. Foremost among them is the institutional influence of minority elites at the central government level.

7.3. Broader Applicability of the Argument

This section briefly surveys the applicability of the causal framework developed in Chapter 2 to several additional cases: the United Kingdom, Belgium, Nigeria, and Bolivia. While the government of Tony Blair could hardly be characterized as statist, it ushered in a period of spending increases during the 2000s, ending a long period of

⁹⁸³ Greer, *Nationalism and Self-Government*, 133.

austerity in the UK.⁹⁸⁴ At the same time, the majority-inhabited regions have on average been more developed than the minority-inhabited areas, such as Wales and Scotland.⁹⁸⁵ This combination of factors should be conducive to greater accommodation of minority-nationalist demands.

Indeed, the expansion of government spending during the 2000s was paralleled by the sustained extension of autonomy to Scotland and Wales.⁹⁸⁶ Tony Blair's Labour government initiated the process of devolution and the establishment of autonomous Scottish, Welsh, and Northern Irish legislatures in 1997. In the case of Scotland, the central government devolved power by creating the Scottish Parliament in 1998 (The Scotland Act). The Parliament received a wide range of powers, including the ability to vary the rate of income tax raised in Scotland by plus or minus 3 pence per pound.⁹⁸⁷ That said, the new politics of austerity in the UK might render the continued devolution of power and resources politically problematic.⁹⁸⁸ In other words, a shift to a more laissez-faire strategy of governance might compromise the autonomy attained by the Scottish elites, as the central government seeks to ensure greater fiscal and monetary stability across the United Kingdom.

⁹⁸⁴ From a low of 36.6% of GDP in 2000, government spending in the UK rose to 47.5% of GDP in 2008. OECD, "OECD factbook."

⁹⁸⁵ M. Danson, M. G. Lloyd, and D. Newlands, "Scotland," in *Regional Development in the 1990s: The British Isles in Transition*, ed. Ron Martin and P. M. Townroe (London: J. Kingsley, 1992). For the impact of Thatcherite policies on this division, see Jim Lewis and Alan R. Townsend, eds., *The North-South Divide: Regional Change in Britain in the 1980s* (London: P. Chapman, 1989).

⁹⁸⁶ For a more detailed overview of the Scottish experience, see Alan Trench, ed., *Devolution and Power in the United Kingdom* (Manchester: Manchester University Press, 2007). and Michael Keating, *The Government of Scotland: Public Policy Making After Devolution, 2nd ed.* (Edinburgh: Edinburgh University Press, 2010).

⁹⁸⁷ Rosanne Palmer, *Devolution, Asymmetry and Europe: Multi-level Governance in the United Kingdom* (Brussels: Peter Lang, 2008), 58–59.

⁹⁸⁸ Alan Trench, "The Options for Devolution Finance: The Choices for the New Government," *The Political Quarterly* 81, no. 4 (2010): 571.

The Scottish case corroborates the argument presented in this dissertation in yet another respect. As Scotland has experienced lower levels of growth than England during the post-war period, its residents have been more likely to embrace statist solutions to their social and economic problems. One indicator of this has been the Scottish population's traditional preference for the Labour Party over the Conservatives, especially during the 1980s and 1990s.⁹⁸⁹ Even the regional Scottish Nationalist Party, which formed the majority government in 2011, is located left-of-centre on the political spectrum.⁹⁹⁰ Another indicator of the statist inclinations of Scotland's population and its political elites is the hostility of local capital toward Scottish autonomy. Scottish business leaders have tended to assume that autonomous political institutions would be used by the local political elites to 'constrain the free market.'⁹⁹¹

Belgium is yet another multinational state characterized by significant economic inequalities among its constituent groups. The majority-inhabited Flanders is economically more developed than the minority-inhabited Wallonia.⁹⁹² Belgian public spending was relatively high throughout the 1980s and 1990s, the two decades during which the country was transformed into a federation.⁹⁹³ Moreover, federal government spending patterns are highly redistributive, both socially and territorially.⁹⁹⁴ Under these

⁹⁸⁹ Charles Pattie, "A (dis)United Kingdom," in *The Changing Geography of the United Kingdom*, ed. V. Gardiner and Michael Hugh Matthews (London: Routledge, 2000), 319–20.

⁹⁹⁰ Jack Brand, James Mitchell, and Paula Surridge, "Social Constituency and Ideological Profile: Scottish Nationalism in the 1990s," *Political Studies* 42, no. 4 (1994): 620.

⁹⁹¹ Peter Lynch, "Reactive Capital: The Scottish Business Community and Devolution," *Regional & Federal Studies* 8, no. 1 (1998): 89.

⁹⁹² Bea Cantillon et al., "Social Redistribution in Federalised Belgium," *West European Politics* 29, no. 5 (2006): 1038. This has been the case since the 1960s, when the industrialized Wallonia and Brussels fell behind the northern, Flemish-inhabited, part of the country. Michael O'Neill, "Re-imagining Belgium: New Federalism and the Political Management of Cultural Diversity," *Parliamentary Affairs* 51, no. 2 (1998): 244.

⁹⁹³ OECD, "OECD Factbook."

⁹⁹⁴ Cantillon et al., "Social Redistribution in Federalised Belgium."

conditions, Belgium's regions have received progressively more autonomy between 1980 and the present, therefore corroborating my thesis.⁹⁹⁵

This observation conceals a more complex and tenuous reality. First, Belgium stands out from other multinational states because both its minority and majority communities demanded greater autonomy over the past several decades.⁹⁹⁶ In fact, currently the majority Flemish elites are more insistent on further decentralization than are their minority counterparts.⁹⁹⁷ This trend contradicts the one observed in the four cases analyzed in this dissertation, where claims for territorial autonomy are the exclusive preserve of the minority elites. Flemish demands for autonomy are rooted in the historical development of the Belgian state. Though a minority, the Francophone community was politically and economically dominant until the post-World War II period.⁹⁹⁸ As a result, the *majority* population developed the kinds of grievances, including political and cultural ones, that are usually articulated by minority groups. Although this initially marginalized majority became economically and politically dominant after 1945, it never developed the kind of attachment to the common-state that majorities usually do.⁹⁹⁹ At the same time, the political leadership of the minority Walloon community began to demand autonomy in order to protect the economic interests of its own less developed

⁹⁹⁵ For an overview of the federalization of Belgium, see Kris Deschouwer, "Belgium," in *Constitutional Origins, Structure, and Change in Federal Countries*, ed. John Kincaid and G. Alan Tarr (Montréal: McGill-Queen's University Press, 2005), and Swenden and Jans, "'Will It Stay or Will It Go?'"

⁹⁹⁶ Frank Delmartino, "Regionalisation in Belgium: Evaluation of an Ongoing Institutional Crisis," *European Journal of Political Research* 16, no. 4 (1988): 382–83.

⁹⁹⁷ Pieter van Houten, "The Politics of Fiscal Autonomy Demands: Regional Assertiveness and Intergovernmental Financial Relations in Belgium and Germany" (presented at the CASPIC MacArthur Scholar's Conference "Relocating the State," University of Chicago, 1999), 13, <http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.23.6909>.

⁹⁹⁸ For the parallel development of Walloon and Flemish identities, see Aristide Zolberg, "The Making of Flemings and Walloons: Belgium: 1830-1914," *Journal of Interdisciplinary History* 5, no. 2 (1974): 178-235.

⁹⁹⁹ The Walloons continue to identify with the common state more than do the Flemish. Jaak Billiet, Bart Maddens, and André-Paul Frogner, "Does Belgium (Still) Exist? Differences in Political Culture Between Flemings and Walloons," *West European Politics* 29, no. 5 (2006): 916.

region.¹⁰⁰⁰ While Walloon leaders advocate continued redistribution of resources by the centre, their Flemish counterparts seek autonomy that would entail a decrease in indirect social transfers from their region to Wallonia.¹⁰⁰¹

Nevertheless, the extension of fiscal autonomy to the regions, demanded by the Flemish elites, has been limited.¹⁰⁰² In other words, the preferences of the majority community have not been implemented fully, despite that community's demographic and economic dominance. This can be explained in part by the organization of the institutions of central government—each linguistic group has effective veto power over federal policy and institutional change. Walloon elites can therefore ensure that they will not be politically sidelined.¹⁰⁰³ Thus, the accommodative outcomes in Belgium are subject to the same institutional dynamics observed in the former Yugoslavia during the 1970s, and in democratic Czechoslovakia.

As in the other cases, the relative levels of economic development in Belgium have coincided with the predictable distribution of ideological preferences. Left-wing parties have traditionally been stronger in the less-developed Wallonia, whereas their right-wing competitors have usually been dominant in the wealthier Flanders.¹⁰⁰⁴ Additionally, Walloon political elites have usually advocated interventionist policy solutions to their region's social and economic problems, starting in the 1960s, and

¹⁰⁰⁰ van Houten, "The Politics of Fiscal Autonomy Demands: Regional Assertiveness and Intergovernmental Financial Relations in Belgium and Germany," 12.

¹⁰⁰¹ *Ibid.*, 13.

¹⁰⁰² Swenden and Jans, "Will it stay or will it go?," 885.

¹⁰⁰³ *Ibid.*, 881.

¹⁰⁰⁴ Kris Deschouwer, "And the Peace Goes On? Consociational Democracy and Belgian Politics in the Twenty-first Century," *West European Politics* 29, no. 5 (2006): 901; Jan Erk, "Sub-state Nationalism and the Left-right Divide: Critical Junctures in the Formation of Nationalist Labour Movements in Belgium," *Nations and Nationalism* 11, no. 4 (2005): 551-70.

continuing to the present.¹⁰⁰⁵ Overall, Belgium presents a challenge to one of the key assumptions of my work, namely that majorities tend to identify more closely with the common state than do the minorities. Yet, even here, political economy plays a part in accounting for the dynamics of accommodation.

Nigeria is another important case study in territorial autonomy.¹⁰⁰⁶ While Nigeria's levels of public spending have tended to vary over time, its central government has engaged in territorially redistributive policies throughout the country's independent history.¹⁰⁰⁷ The largest proportion of government revenue is derived from oil production, most of which takes place in three states inhabited by ethnic minority groups: Delta, Rivers, and Akwa-Ibom.¹⁰⁰⁸ While these states are not necessarily more developed than other areas of Nigeria, where members of the three largest ethnic groups reside, they are certainly the most revenue-rich. At the same time, Nigeria is widely considered to be one of the most centralized federations in the world.¹⁰⁰⁹ Demands by minority-inhabited regions for greater autonomy, particularly in terms of retention of oil-related revenues, have not been met with a favourable response.¹⁰¹⁰ Thus, *prima facie*, the Nigerian case

¹⁰⁰⁵ O'Neill, "Re-imagining Belgium: New Federalism and the Political Management of Cultural Diversity," 245.

¹⁰⁰⁶ It is Africa's most populous country, as well as the most well-known African federation.

¹⁰⁰⁷ Rotimi T Suberu, *Federalism and Ethnic Conflict in Nigeria* (Washington, D.C: United States Institute of Peace Press, 2001), 58. Nigeria's central government has also engaged in a strongly interventionist strategy of governance, in the absence of private initiative and capital. Ben Naanen, "Oil-producing Minorities and the Restructuring of Nigerian Federalism: The Case of the Ogoni People," *Commonwealth & Comparative Politics* 33, no. 1 (1995): 53.

¹⁰⁰⁸ Ibid. Nigeria does not contain an outright ethnic majority. The three largest groups, the Igbo, Yoruba and Hausa-Fulani, constitute about two thirds of the country's population. Robert F. Stock, *Africa South of the Sahara: A Geographical Interpretation* (New York: Guilford Press, 2004), 410.

¹⁰⁰⁹ Ignatius Akaayar Ayua and Dakas C. J. Dakas, "Federal Republic of Nigeria," in *Constitutional Origins, Structure, and Change in Federal Countries*, ed. John Kincaid and George Alan Tarr (Montreal: McGill-Queen's Press, 2005), 250–51.

¹⁰¹⁰ Rotimi Suberu, "Federalism in Africa: The Nigerian Experience in Comparative Perspective," *Ethnopolitics* 8, no. 1 (2009): 80–83; Suberu, *Federalism and Ethnic Conflict in Nigeria*, 66–68.

seems to conform to the expectations of the theoretical framework presented in this thesis.

Yet, as in most of the other cases discussed, Nigeria's accommodative dynamics have more complex roots. I will mention only two of the most important complementary variables. The first is the traumatic experience of the Nigerian First Republic (1963-1966). The First Republic was a radically decentralized federation that descended into a bloody civil war, lasting from 1967 to 1970.¹⁰¹¹ The military government that assumed power with the end of hostilities laid the blame for the instability of the 1960s on the country's 'excessively decentralized' institutional framework.¹⁰¹² The mistrust of 'excessive' decentralization has characterized Nigerian politics ever since.

Another reason for the common-state elites' reluctance to accommodate the demands of the minority-inhabited regions is the patronage-based character of Nigerian politics in general. Redistribution of financial resources to sub-national governments is a key source of support for the central state elites.¹⁰¹³ Greater fiscal autonomy for the oil-producing states in the Niger delta would deprive these elites of an important source of electoral influence in the other parts of the country. Of course, buying influence is the predatory-state equivalent of the governance imperative in less corrupt polities. In countries such as Canada, the central state elites raise funds in order to provide public goods, and thereby indirectly win support of the relevant constituencies. In states like Nigeria, influence is bought directly. The goals are the same, as are the financial requirements. The difference lies in the methods of exerting political leverage. One need

¹⁰¹¹ Larry Jay Diamond, *Class, Ethnicity, and Democracy in Nigeria: The Failure of the First Republic* (Syracuse: Syracuse University Press, 1988).

¹⁰¹² Suberu, *Federalism and Ethnic Conflict in Nigeria*, 36.

¹⁰¹³ E. R. Aiyede, "The Political Economy of Fiscal Federalism and the Dilemma of Constructing a Developmental State in Nigeria," *International Political Science Review* 30, no. 3 (2009): 249-269.

not have a particularly vivid imagination to envision that, if the minority-inhabited areas of Nigeria did not contribute such a disproportionate share of the central government revenues, their autonomy would be far more feasible from the perspective of the common-state elites. Likewise, if the central government were not as strongly redistributive as it has been, its fiscal needs would be more limited, and it would have been in the position to extend greater autonomy to the minority-inhabited regions in the Niger delta.

Bolivia, the final case considered in this section, is not commonly viewed as a multinational polity. Recent constitutional developments suggest scholars need to reconsider this view: indeed, the 2009 Constitution defines Bolivia as a plurinational state.¹⁰¹⁴ This shift in constitutional status is a result of the political mobilization of the country's indigenous population during the past two decades. Indigenous political activism has prompted the business elite in the eastern province of Santa Cruz, drawn almost exclusively from the white minority population, to realize that its domination of Bolivia's political landscape was at an end.¹⁰¹⁵ In 2005, the first indigenous president, Evo Morales, came to power, and the Santa Cruz elites mobilized the population behind an initiative for extensive regional autonomy.

The political economy of Bolivia during the 2000s has militated against radical decentralization, as would be predicted by the argument presented here. Santa Cruz, the minority-inhabited region, is relatively more developed than the rest of the country and

¹⁰¹⁴ Robert Albrow, "Confounding Cultural Citizenship and Constitutional Reform in Bolivia," *Latin American Perspectives* 37, no. 3 (2010): 78. According to the Minorities at Risk data, highland and lowland indigenous population of Bolivia comprises approximately 55% of the country's population. Minorities at Risk Project, *Minorities at Risk Dataset* (College Park, MD: Center for International Development and Conflict Management, 2009), <http://www.cidcm.umd.edu/mar/>. The rest of the population consists of whites and mestizos.

¹⁰¹⁵ Kent Eaton, "Backlash in Bolivia: Regional Autonomy as a Reaction against Indigenous Mobilization," *Politics & Society* 35, no. 1 (2007): 83.

contains most of the mineral wealth that Bolivia produces. In fact, though it only contains about a quarter of Bolivia's population, it contributes a disproportionate 42% of tax revenue to the central government.¹⁰¹⁶ At the same time, the Morales administration has committed itself to a strongly statist strategy of governance. Some of its key policy goals included nationalization of private assets and a fairer redistribution of income and wealth.¹⁰¹⁷ Foregoing the fiscal resources of Santa Cruz by accepting the province's demands would have meant that the Morales government would have been unable to implement its preferred strategy of governance. It is thus not surprising to find that the central elites have been generally dismissive of the demands emanating from Bolivia's easternmost province.¹⁰¹⁸

This brief examination of the Bolivian case merits two qualifications. The first is that the Santa Cruz elites have not (yet) framed their demands in ethnic or nationalist terms.¹⁰¹⁹ Rather, they have used territorial attachments in their discourse. Nevertheless, Bolivia's class tensions are invariably linked with ethnicity and ethnic politics.¹⁰²⁰ After all, the Morales administration came to power explicitly in order to right colonial (and post-colonial) wrongs. The second caveat has greater theoretical resonance. The demands for autonomy, voiced by the white elites in Santa Cruz, are broadly perceived as

¹⁰¹⁶ *Ibid.*, 77.

¹⁰¹⁷ James Rochlin, "Latin America's Left Turn and the New Strategic Landscape: The Case of Bolivia," *Third World Quarterly* 28, no. 7 (2007): 1330–33.

¹⁰¹⁸ In the aftermath of a referendum on autonomy in Santa Cruz in 2008, the majority of those voting expressed their support for the elite project. The central government questioned the legality of the referendum in response. "Morales dismisses autonomy vote," *BBC*, May 5, 2008, sec. Americas, <http://news.bbc.co.uk/2/hi/americas/7382538.stm>.

¹⁰¹⁹ Eaton, "Backlash in Bolivia," 91.

¹⁰²⁰ Willem Assies and Ton Salman, "Ethnicity and Politics in Bolivia," *Ethnopolitics* 4, no. 3 (2005): 269–297.

illegitimate by the political classes currently in power in the country's capital.¹⁰²¹ The perceived legitimacy of minority claims can influence the common-state elites' disposition toward autonomy and possibly have an effect on the accommodative outcomes.

The foregoing discussion suggests that the argument developed in this dissertation has some applicability beyond the original four cases discussed. As in the original cases, contextual factors play a significant role in explaining the ultimate outcomes. Nevertheless, governability is a central consideration in the decisions of central state elites about how far to accommodate minority demands for territorial autonomy. Governability, in turn, depends on the relative levels of economic development of minority and majority-inhabited areas, and on the central elites' strategies of governance.

7.4. Implications and Directions for Future Research

Variations in territorial autonomy can have profound, if not always clearly understood, implications for the stability of multinational states. The present work is a systematic attempt at explaining why central governments differ in their ability to extend territorial autonomy to minority groups.

In undertaking this work, I have attempted to transcend a major limitation of existing approaches to the study of ethnopolitics: the excessive emphasis on 'ethnic' explanatory variables. I have done this by demonstrating how issues seemingly unrelated to ethnicity and nationalism, such as central elites' strategies of governance, can have a

¹⁰²¹ As one deputy from Morales' party put it, "the oligarchs in [Santa Cruz] could have used their control of the national government to adopt autonomy, but they didn't need autonomy when they dominated national institutions. Now they need autonomy to protect their economic privileges, but can't just adopt it because they no longer control the government." Eaton, "Backlash in Bolivia," 85.

profound impact on the structuring of possibilities for accommodation. Furthermore, whereas most contemporary accounts of ethnofederalism focus on what territorial autonomy does to the political behaviour of minority nations alone, I emphasize the *interaction* between minority and central state elites.¹⁰²² Because the accommodative outcomes ultimately depend on the responses of central state leaders to demands for autonomy, these leaders' incentives should be a fundamental element of any study of decentralization.

The present work also contains some methodological implications for the future study of ethnofederalism. Because I have defined accommodation as a process, rather than as an event, I have placed emphasis on the examination of the *dynamics* of devolution, rather than on the analysis of comparative statics. In other words, instead of comparing snapshot outcomes at a given point, I have compared processes of devolution, as they have unfolded over time.¹⁰²³ In studying comparative dynamics, small-*n* comparisons remain the optimal methodological choice. They are preferable to both large-*n* studies which emphasize the correlation of static variables at a given juncture, and single-case analyses, which yield few broadly generalizable insights.

In addition to the above theoretical and methodological implications, which should be of interest primarily to scholars, the present work has significance for policy makers, particularly those concerned with the design of federal institutions in 'divided societies.' Broadly speaking, this thesis addresses the viability of federal arrangements in

¹⁰²² In this respect, my work dovetails with the efforts of scholars such as Henry Hale and Eric Kaufmann. Both authors have attempted to expand the study of ethnopolitical dynamics by shifting focus away from undue and near exclusive emphasis on minority group behaviour. Hale, "Divided We Stand"; Eric P Kaufmann, ed., *Rethinking Ethnicity: Majority Groups and Dominant Minorities* (London: Routledge, 2004).

¹⁰²³ This is in line with the emphasis on 'forward plotting', or development of 'scenarios' suggested by Bernstein et al. Steven Bernstein et al., "God Gave Physics the Easy Problems," *European Journal of International Relations* 6, no. 1 (2000): 53.

different contexts. Understanding how different configurations of political economy factors influence the feasibility of territorial autonomy could contribute to more considered decisions about institutional design. For instance, even if central state elites are quite willing to accommodate minority demands, in some contexts extensive autonomy will simply be less workable for the central government than in others. Awareness of these patterns can caution policy-makers against accommodating too quickly and too far, only to withdraw or scale back the attained autonomy soon afterward. Such sudden reversals, even if they are not explicitly aimed at marginalizing the minority group, can result in destabilizing ethnopolitical processes.

Much more empirical testing and theoretical refinement is required in order to place the study of accommodative capacity on sounder footing. Future efforts at understanding accommodative outcomes can be pointed in several directions. For instance, more comprehensive theoretical accounts of territorial autonomy might seek to combine political economy variables highlighted in this dissertation with other factors. These might include institutional variables, such as the nature of minority elite representation in the central government, or the configurations of party systems. Ideational factors, such as the preferences held by the central state elites for particular types of state organization, should be considered as well. The intensity of minority claims and minority mobilization might also be worth exploring. To the extent possible, it would be useful to understand the *relative* importance of these factors in explaining accommodative outcomes. Most of all, the framework developed in this dissertation, as well as any future theoretical innovations, should be tested in other multinational settings,

such as Russia, India and others, as well as in post-conflict polities, like Bosnia, Iraq and Afghanistan.

This dissertation is a modest contribution to a better understanding of the political dynamics of accommodation in multinational states. If it can raise sufficient interest to stimulate further study of this important subject, it will have fulfilled its aim.

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Appendix A

Table 1
Canada – Population by province, 1971

	<i>Total</i>	<i>As % of Canada's population</i>
<i>Canada</i>	21,568,311	
<i>Developed Provinces</i>	<i>11,515,601</i>	<i>53.39</i>
Alberta	1,627,874	7.55
British Columbia	2,184,621	10.13
Ontario	7,703,106	35.71
<i>Less Developed Provinces</i>	<i>9,999,515</i>	<i>46.36</i>
Manitoba	988,247	4.58
New Brunswick	634,557	2.94
Newfoundland	522,104	2.42
Nova Scotia	788,960	3.66
Prince Edward Island	111,641	0.52
Quebec	6,027,764	27.95
Saskatchewan	926,242	4.29

Source: Own calculations, based on Statistics Canada, *Canada Year Book* (1975).

Table 2
Provincial share in Canada's GDP (% of Total)

	<i>1961</i>	<i>1965</i>	<i>1970</i>	<i>1975</i>	<i>1980</i>
Alberta	7.94	7.76	8.03	10.86	13.93
British Columbia	9.95	10.23	10.55	11.38	12.35
Manitoba	4.55	4.36	4.17	4.04	3.61
New Brunswick	1.97	1.92	1.89	1.82	1.62
Newfoundland	1.26	1.28	1.36	1.30	1.32
Nova Scotia	2.64	2.40	2.51	2.27	2.03
Ontario	41.08	40.89	42.03	39.79	37.13
Prince Edward Island	0.28	0.28	0.27	0.27	0.27
Quebec	26.14	26.20	25.45	23.90	23.32
Saskatchewan	3.95	4.43	3.44	4.03	4.00

Source: Own calculations, based on data from Statistics Canada, *Canadian Economic Observer: Historical Statistical Supplement* (1986).

Table 3
Provincial per capita GDP, as a percentage of Canadian average

	1961	1971	1981
Alberta	108.74	107.00	152.74
British Columbia	111.44	105.96	111.46
Manitoba	90.05	89.11	87.78
New Brunswick	60.20	64.26	58.51
Newfoundland	50.25	55.95	55.98
Nova Scotia	65.30	67.65	59.33
Ontario	120.15	117.82	104.62
Prince Edward Island	49.39	51.49	56.38
Quebec	90.64	90.07	86.66
Saskatchewan	77.96	83.32	101.36

Source: Own calculations, based on data from Statistics Canada, *Canadian Economic Observer: Historical Statistical Supplement* (1986).

Table 4
Provincial share in Canada's manufacturing value added, 1971

Alberta	3.47
British Columbia	8.58
Manitoba	2.46
New Brunswick	1.29
Newfoundland	0.56
Nova Scotia	1.37
Ontario	53.35
Prince Edward Island	0.09
Quebec	27.85
Saskatchewan	0.97

Source: Own calculations, based on data from Statistics Canada, *Canada Year Book* (1975).

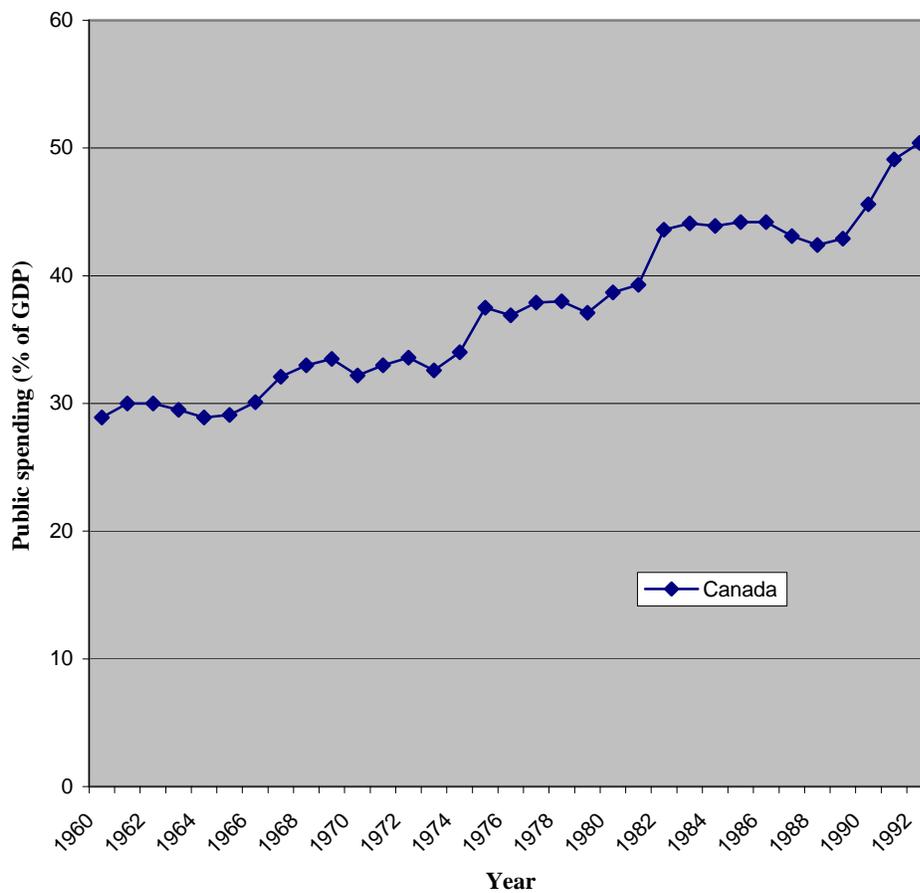
Table 5
Canada - unemployment rates (% of active labour force)*

	1960	1965	1970	1975	1980	1985
Alberta			5.10	4.10	3.70	10.1
Saskatchewan	4.20	2.50	4.20	2.90	4.40	8.1
Manitoba			5.30	4.50	5.50	8.1
New Brunswick			6.30	9.80	11.00	15.2
Newfoundland	10.70	7.40	7.30	14.00	13.30	21.3
Nova Scotia			5.30	7.70	9.70	13.8
Prince Edward Island			-	8.00	10.60	13.2
Ontario	5.40	2.50	4.40	6.30	6.80	8.00
Quebec	9.10	5.40	7.00	8.10	9.80	11.80
British Columbia	8.50	4.20	7.70	8.50	6.80	14.20
Canada	7.00	3.90	5.70	6.90	7.50	10.50

*Original data partially aggregated by region for 1960 and 1965.

Source: For 1960-1965, Canada Department of Finance, *Economic Review* (April 1972); for 1970-1985, Statistics Canada, *Canadian Economic Observer: Historical Statistical Supplement* (1986).

Chart 7
Canada – Public spending trends



Source: Based on data from Evelyne Huber, Charles Ragin, John D. Stephens, David Brady, and Jason Beckfield, *Comparative Welfare States Data Set* (Northwestern University, University of North Carolina, Duke University and Indiana University, 2004).

Table 8
OECD Government expenditures as % of current GDP

	1960-67	1968-73	1974-79	1980-84
<i>Liberal regimes</i>				
Australia	24.3	25.8	32.9	33.8
Canada	29.8	35.3	39.7	44.6
Ireland	31.4	38.3	45.1	48.5
United Kingdom	34.7	39.9	44.4	47.1
United States	28.8	31.7	33.7	35.3
<i>Conservative regimes</i>				
Finland	29.3	31.7	36.3	38.6
France	37.4	39	43.7	50.2
Germany	35.7	39.8	47.5	48.7
Italy	31.9	36	42.9	53.4
Japan	18.6	20.9	28.5	33.4
Switzerland	19	22	29.2	30.1
<i>Social-democratic regimes</i>				
Austria	37.6	40.2	46.7	50.1
Belgium	31.6	37.5	45.5	54.8
Denmark	29.1	40.1	49.1	59.9
Netherlands	37.8	46.7	54.6	61.4
Norway	32.8	41.8	50.5	50.4
Sweden	34.8	44.3	54.4	64.5

Source: Based on data from Evelyne Huber, Charles Ragin, John D. Stephens, David Brady, and Jason Beckfield, *Comparative Welfare States Data Set* (Northwestern University, University of North Carolina, Duke University and Indiana University, 2004).

Appendix B

Table 1
Slovakia's share in Czechoslovak economy – Select Indicators (%)

	1948	1960	1970	1980	1989
National income produced	19.2	23.5	28.5	29	30.4
Industrial output	13.5	18.9	24	28.9	29.5
Labour productivity (Czech republic=100)	62	81	91	92	96

Source: Extracted from Table 2 in Ales Capek & Gerald W. Sazama, "Czech and Slovak Economic Relations," *Europe-Asia Studies* 45, no. 2 (1993): 211-35.

Table 2
Per capita GDP in the Czech Republic and Slovakia
(current prices in Czechoslovak Crowns)

	1989	1990	1991	1992
Czech Republic	50627	54742	69532	74775
Slovakia	44383	45972	53264	55098
<i>Slovak per capita GDP as a percentage of Czech</i>	<i>87.67</i>	<i>83.98</i>	<i>76.60</i>	<i>73.69</i>

Source: Czech Statistical Office, *Statistical Yearbook of the Czech Republic* (1993), for all figures except for Slovakia in 1991 and 1992. Figures for Slovakia in 1991 and 1992 based on Štatistický úrad Slovenskej republiky, *Statistical Yearbook of the Slovak Republic* (1995).

Table 3
Public opinion on the preferred form of Czech-Slovak
state relationship (%)

	Unitary State	Federation	Confederation	Independence	Don't Know
<i>1990 (June)</i>					
Czech Republic	30	45	n/a	12	13
Slovakia	14	63	n/a	13	6
<i>1991 (November)</i>					
Czech Republic	39	30	4	5	22
Slovakia	20	26	27	14	13
<i>1992 (March)</i>					
Czech Republic	34	27	6	11	22
Slovakia	13	24	32	17	14

Source: Carol Leff, *The Czech and Slovak Republics: Nations Versus State* (Boulder: Westview Press, 1996), 138.

Appendix C

Table 1
Population of Yugoslavia, 1971

	<i>Total</i>	<i>As % of Yugoslav population</i>
<i>Yugoslavia</i>	20,522,972	
<i>Developed Republics</i>	6,153,000	30
Croatia	4,426,000	22
Slovenia	1,727,000	8
<i>Less Developed Republics</i>	14,370,000	70
Bosnia and Herzegovina	3,746,000	18
Macedonia	1,647,000	8
Montenegro	530,000	3
Serbia Total	8,447,000	41
Inner Serbia	5,250,000	
Vojvodina	1,953,000	
Kosovo	1,244,000	

Source: Statistical Office of Yugoslavia, *Statistical Yearbook of the Socialist Federative Republic of Yugoslavia* (1981), 407.

Table 2
Population of Yugoslavia by nationality, 1971 (%)

	<i>Total</i>	<i>Percentage</i>
Serbs	8,143,246	39.68
Croats	4,526,782	22.06
Muslims	1,729,932	8.43
Slovenians	1,678,032	8.18
Albanians	1,309,523	6.38
Macedonians	1,194,784	5.82
Montenegrins	508,843	2.48
Total	20,522,972	

Source: Statistical Office of Yugoslavia, *Statistical Yearbook of the Socialist Federative Republic of Yugoslavia* (1981), 410.

Table 3
Republican share in Yugoslavia's Gross Social Product (%)

	<i>1960</i>	<i>1966</i>	<i>1968</i>	<i>1970</i>	<i>1975</i>	<i>1980</i>
<i>Developed republics</i>						
Croatia	26.81	26.43	26.95	26.77	26.01	25.87
Slovenia	15.49	15.23	15.79	16.33	17.05	16.94
<i>Less developed republics</i>						
Bosnia	13.38	12.93	12.62	12.29	12.26	12.04
Macedonia	4.83	5.24	5.39	5.60	5.59	5.63
Montenegro	1.64	1.91	1.94	1.99	1.81	2.07
Serbia total	37.86	38.26	37.32	37.02	37.28	38.50
Inner Serbia	25.15	24.97	24.71	24.72	24.41	25.12
Kosovo	1.92	2.09	1.99	2.04	2.20	1.99
Vojvodina	10.79	11.20	10.62	10.26	10.66	10.34

Source: Own calculations, based on Statistical Office of Yugoslavia, *Statistical Yearbook of the Socialist Federative Republic of Yugoslavia* (various years).

Table 4
 Republican per capita Gross Social Product
 as a percent of Yugoslav average

	<i>1960</i>	<i>1970</i>	<i>1980</i>
<i>Developed Republics</i>	150.04	159.12	163.68
Croatia	119.54	124.13	126.33
Slovenia	180.53	194.10	201.02
<i>Less Developed Republics</i>	73.93	76.03	75.76
Bosnia and Herzegovina	75.71	67.32	65.40
Macedonia	63.73	69.76	65.77
Montenegro	64.37	77.07	79.12
Serbia	91.89	89.95	92.74
Inner Serbia	96.73	96.62	99.09
Vojvodina	107.87	107.86	113.96
Kosovo	36.90	33.67	28.12

Source: Own calculations, based on Statistical Office of Yugoslavia, *Statistical Yearbook of the Socialist Federative Republic of Yugoslavia* (various years).

Table 5
Yugoslavia – Unemployment by republic (%)

	<i>1960</i>	<i>1965</i>	<i>1970</i>	<i>1975</i>	<i>1980</i>
<i>Yugoslavia</i>	5.5	6.6	8.5	11.6	13.8
<i>Developed Republics</i>					
Croatia	5.6	6.1	4.9	6	5.7
Slovenia	2	1.8	3.1	1.5	1.4
<i>Less Developed Republics</i>					
Bosnia and Herzegovina	4.2	5.2	7.4	12.9	16.6
Macedonia	11.5	15.6	21.9	26.8	27.9
Montenegro	6.1	5.7	8.3	17.3	17.5
Serbia	6.1	8.2	9.9	14.6	19.4
Inner Serbia	6.2	8.2	9.9	14.6	18.9
Vojvodina	4	4.9	7.6	12	14.4
Kosovo	15.4	18	32.3	30.7	39

Source: Susan L. Woodward, *Socialist Unemployment: The Political Economy of Yugoslavia, 1945-1990* (Princeton: Princeton University Press, 1995), 383-84.

Table 6
Yugoslavia – Overnight foreign tourist stays (% of Yugoslav total)

	<i>1965</i>	<i>1970</i>	<i>1975</i>	<i>1980</i>
Croatia	72.87	75.66	77.95	81.47
Slovenia	12.75	10.2	8.19	7.56

Source: Own calculations, based on Statistical Office of Yugoslavia, *Statistical Yearbook of the Socialist Federative Republic of Yugoslavia* (various years).

Table 7
Exports of 'Highly manufactured goods' (Percentage of Yugoslav total)

	<i>1977</i>	<i>1979</i>	<i>1981</i>	<i>1984</i>
<i>Developed Republics</i>				
Croatia	29	24	20	21
Slovenia	21	23	22	22
<i>Less Developed Republics</i>				
Bosnia and Herzegovina	11	14	15	15
Macedonia	3	3	4	5
Montenegro	1	1	1	1
Serbia	35	35	37	36
Inner Serbia	26	26	27	27
Vojvodina	8	7	8	8
Kosovo	1	1	2	2

Source: Own calculations, based on Statistical Office of Yugoslavia, *Statistical Yearbook of the Socialist Federative Republic of Yugoslavia* (various years).

Table 8
Yugoslavia – Growth in social expenditure

Gross social expenditure (as % of GNP)	
1970	39.6
1971	36.0
1972	38.7
1973	37.5
1974	40.0
1975	42.5
1976	43.4
1977	44.9
1978	46.5

Source: Ksente Bogoev & Pero Jurković, “The Fiscal System,” in *Essays on the Political Economy of Yugoslavia*, edited by Rikard Lang, George Macesich & Dragomir Vojnić (Zagreb: Informator, 1982), 198.

Appendix D

Table 1
Spain – regional productivity per worker (as %
of Spanish average)

	<i>1960</i>	<i>1973</i>
Andalucia	86.51	85.91
Aragon	99.03	100.17
Asturias	102.16	108.70
Baleares	105.74	119.73
Basque Country	140.60	132.76
Canaries	88.50	99.81
Cantabria	113.13	103.96
Castila la Mancha	72.64	77.95
Castila Leon	79.48	85.20
Catalonia	130.81	121.09
Extremadura	62.02	65.78
Galicia	62.38	60.58
La Rioja	99.59	84.73
Madrid	147.52	123.67
Murcia	84.43	89.10
Navarra	102.64	105.10
Valencia	107.47	100.35
<i>Standard deviation</i>	<i>23.89</i>	<i>19.54</i>

Source: Own calculations, based on Carmen Ródenas Calatayud, *Emigracion Y Economia en España (1960-1990)* (Madrid: Editorial Civitas, 1994), 103.

Table 2
Population of Spain by Autonomous Community (1991)

	<i>Total</i>	<i>As % of Spain's population</i>
<i>Spain</i>	39,443,942	
<i>Minority ACs</i>	10,945,033	27.7
Catalonia	6,115,579	15.5
Basque Country	2,109,009	5.3
Galicia	2,720,445	6.9
<i>Castilian Acs</i>	28,352,076	71.9
Andalucia	7,040,627	17.8
Aragon	1,221,546	3.1
Asturias	1,098,725	2.8
Balearics	745,944	1.9
Canaries	1,637,641	4.2
Cantabria	530,281	1.3
Castilla la Mancha	1,651,833	4.2
Castilla Leon	2,562,979	6.5
Extremadura	1,056,583	2.7
La Rioja	267,943	0.7
Madrid	5,030,958	12.8
Murcia	1,059,612	2.7
Navarre	523,563	1.3
Valencia	3,923,841	9.9

Source: Instituto Nacional de Estadística, *Statistical Yearbook of Spain* (Various years); accessed at http://www.ine.es/prodyser/pubweb/anuarios_mnu.htm.

Table 3
Share of GDP by Autonomous Community (as a %
of Spanish total)

	<i>1980</i>	<i>1990</i>	<i>2000</i>
<i>Minority ACs</i>			
Catalonia	19.12	18.90	18.38
Basque Country	7.45	6.48	6.41
Galicia	6.27	5.46	5.42
<i>Castilian Acs</i>			
Andalucia	13.04	13.54	13.73
Aragon	3.31	3.47	3.14
Asturias	2.71	2.59	2.26
Balearics	1.99	2.38	2.29
Canaries	3.58	3.52	3.87
Cantabria	1.41	1.35	1.25
Castilla la Mancha	3.66	3.78	3.50
Castilla Leon	6.37	6.10	5.77
Extremadura	1.69	1.88	1.77
La Rioja	0.77	0.87	0.76
Madrid	14.14	15.15	17.21
Murcia	2.55	2.53	2.41
Navarre	1.69	1.70	1.72
Valencia	9.89	9.90	9.73

Source: Instituto Nacional de Estadística, *Statistical Yearbook of Spain* (Various years); accessed at http://www.ine.es/prodyser/pubweb/anuarios_mnu.htm

Table 4
Spain - Per capita GDP by Autonomous Community
as % of Spanish average

	<i>1981</i>	<i>1991</i>	<i>1995</i>	<i>2000</i>	<i>2005</i>
Andalucía	75.32	76.08	74.14	73.25	77.99
Aragón	102.03	112.76	107.76	104.46	107.18
Canaries	99.83	90.53	96.55	94.27	90.91
Cantabria	105.49	97.03	93.10	92.99	98.56
Castilla y León	88.04	91.00	95.69	90.45	94.74
Castilla-la Mancha	80.75	88.28	81.90	78.34	78.47
Catalonia	119.90	122.22	121.55	121.66	118.66
Comunity of Madrid	114.74	120.20	131.03	135.67	130.62
Comunity of Navarra	129.65	123.74	125.86	126.75	125.84
Comunity of Valencia	105.25	100.87	94.83	96.18	92.34
Extremadura	58.24	69.84	63.79	63.69	67.94
Galicia	85.26	78.09	81.90	77.71	81.82
Balearics	119.00	131.91	121.55	122.93	111.48
La Rioja	118.19	128.27	114.66	113.38	107.66
Basque Country	133.19	119.12	118.97	122.29	127.27
Principality of Asturias	91.73	91.93	87.93	83.44	88.52
Region of Murcia	101.90	89.57	82.76	83.44	84.69

Source: Own calculations, based on Instituto Nacional de Estadística, *Statistical Yearbook of Spain* (Various years); accessed at http://www.ine.es/prodyser/pubweb/anuarios_mnu.htm; and Eurostat, Gross Domestic Product at current market prices at NUTS level 2; accessed at http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_r_e2gdp&lang=en.

Table 5
Unemployment rates by Autonomous Community
(Selected ACs)

<i>Year</i>	<i>Spain</i>	<i>Andalucia</i>	<i>Madrid</i>	<i>Castilla y León</i>	<i>Castilla - La Mancha</i>	<i>Valencia</i>	<i>Catalonia</i>	<i>Basque Country</i>
1982	15.51	21.26	13.52	12.35	14.85	15.57	18.00	17.50
1983	17.28	21.42	15.90	13.80	14.11	17.93	21.58	19.61
1984	19.60	27.94	18.96	15.37	16.01	18.29	22.31	21.46
1985	21.50	27.99	21.13	18.34	18.03	21.45	22.75	22.73
1986	21.65	30.07	21.07	19.37	15.68	19.71	22.03	23.57
1987	21.01	29.82	17.50	18.48	17.12	19.55	20.49	23.87
1988	19.99	27.89	17.29	18.70	15.81	17.99	20.38	21.66
1989	18.26	27.73	14.20	18.26	15.18	16.05	15.33	20.54
1990	16.76	25.71	12.81	15.71	14.15	14.60	13.04	18.74
1991	16.11	25.05	11.32	15.63	13.23	15.13	12.31	18.02
1992	17.40	26.66	11.51	17.21	14.89	16.99	12.90	18.65
1993	21.69	31.86	16.46	20.16	18.88	22.07	16.94	23.15
1994	24.55	34.24	20.88	21.60	20.71	25.01	21.70	24.80
1995	23.49	33.49	20.31	21.98	20.47	23.69	20.11	23.76
1996	22.83	32.87	21.10	20.55	20.81	22.51	19.36	21.60
1997	21.30	30.57	18.54	19.99	19.81	21.18	18.66	19.29
1998	19.41	28.53	17.75	19.13	18.44	17.55	15.58	18.11
1999	16.78	27.29	14.68	16.88	16.34	13.15	12.28	14.23
2000	14.79	25.04	12.17	14.96	13.73	12.31	9.64	12.70
2001	10.94	18.87	8.23	10.37	10.32	8.94	8.51	10.66
2002	11.57	19.05	7.45	10.83	9.69	9.96	10.73	9.66
2003	11.96	19.15	7.77	11.22	10.74	11.58	10.50	9.60
2004	11.50	17.17	6.66	11.53	10.00	10.23	10.23	10.61

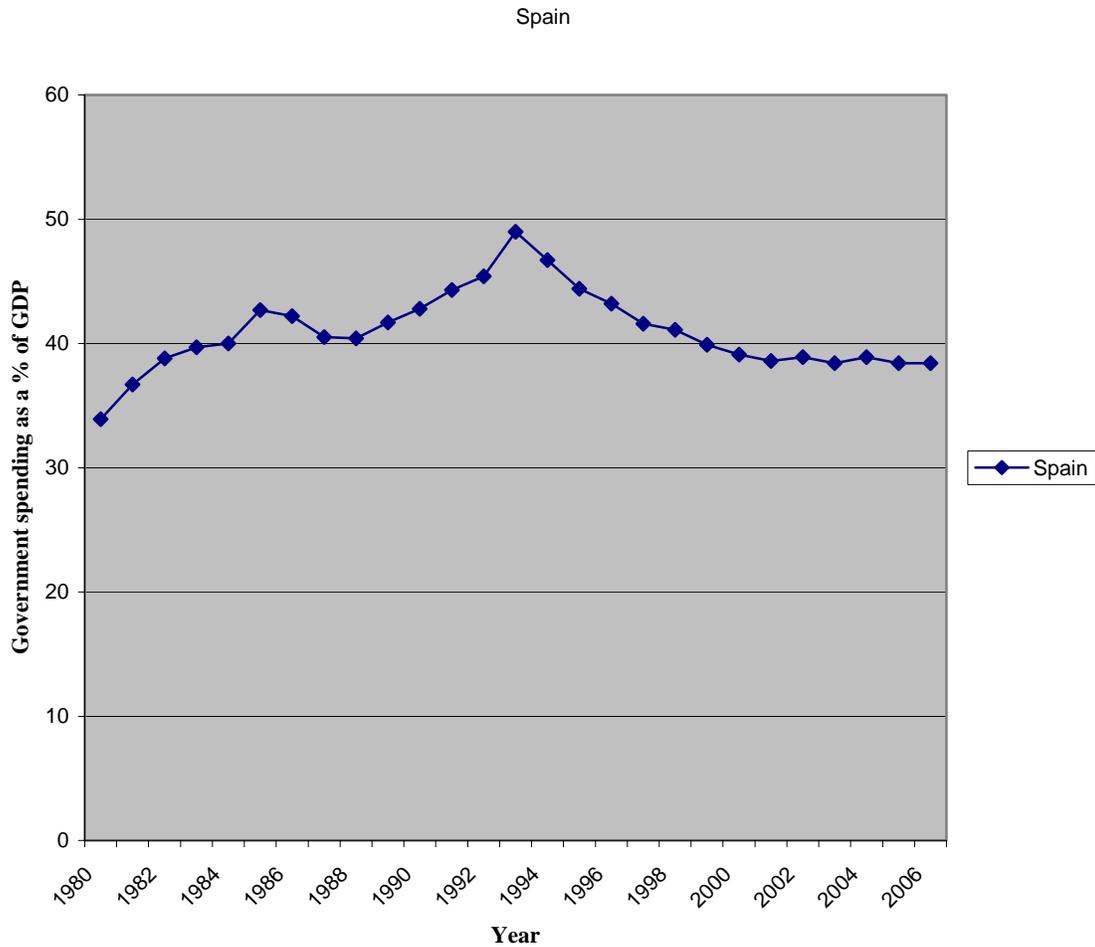
Source: Instituto Nacional de Estadística, *Statistical Yearbook of Spain* (Various years); accessed at http://www.ine.es/prodyser/pubweb/anuarios_mnu.htm.

Table 6
Industrial production by Autonomous Community
(Share of the Spanish total)

	<i>1993</i>	<i>1995</i>	<i>2000</i>	<i>2005</i>
Andalucia	7.8	8.3	8.8	11
Aragon	4.8	5.4	4.5	4.6
Asturias	2.5	2.5	2.2	2.5
Balearics	0.5	0.5	0.4	0.5
Basque country	9	9.2	10	10.1
Canaries	1	0.9	1.4	1.5
Cantabria	1.5	1.6	1.3	1.4
Castilla la Mancha	3.3	3.2	3.6	4.4
Castilla Leon	7	7.4	6.8	6.9
Catalonia	28.4	27.2	26.6	23.8
Extremadura	0.4	0.5	0.6	0.9
Galicia	5.8	5.2	6.1	6.5
La Rioja	1.1	1.2	1.2	1
Madrid	11.1	10.6	9.5	8.2
Murcia	1.7	1.7	2.3	2.6
Navarre	3.6	3.8	3.6	3.5
Valencia	10.3	10.7	11	10.5
Spain total	100	100	100	100

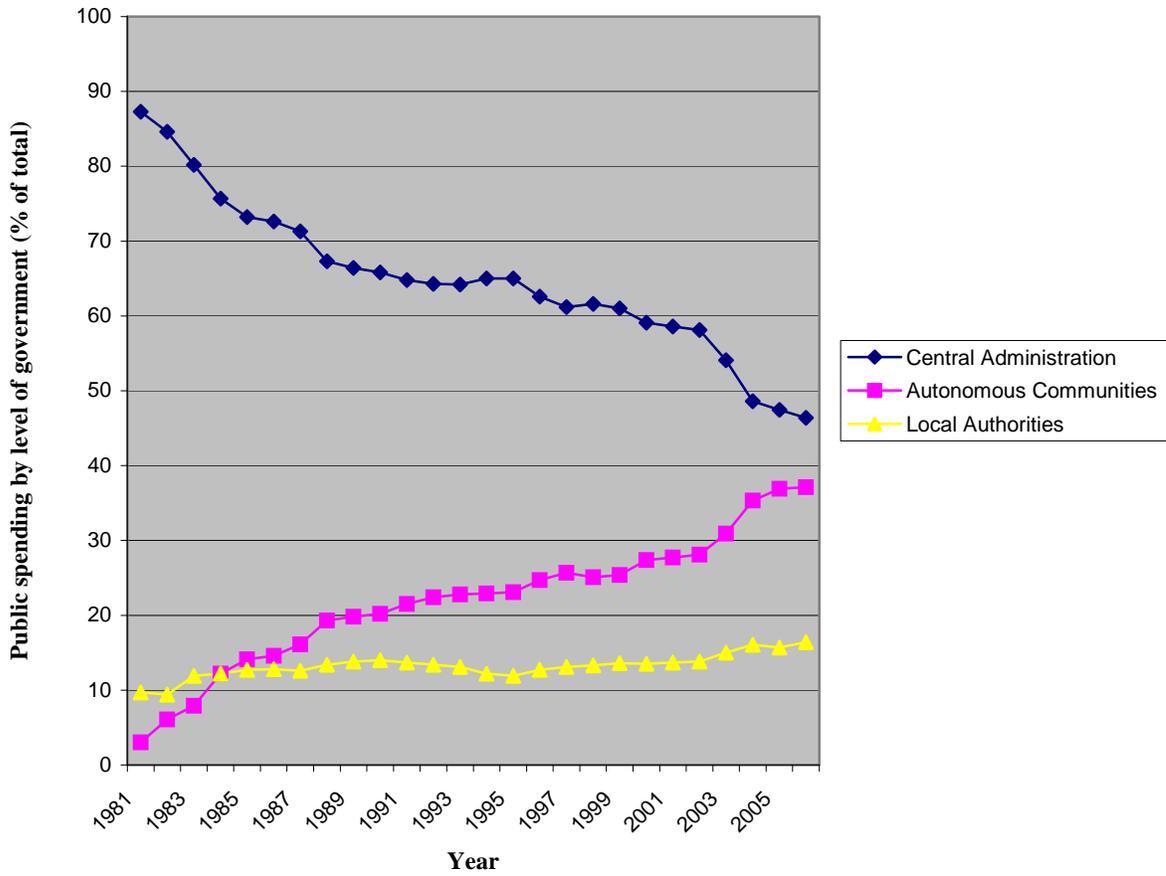
Source: Instituto Nacional de Estadística, *Statistical Yearbook of Spain* (Various years); accessed at http://www.ine.es/prodyser/pubweb/anuarios_mnu.htm

Chart 7
Spain – General government expenditure as a percentage of GDP



Source: Based on data from OECD, *OECD Factbook: Economic, Environmental and Social Statistics* (2010). Accessed at http://www.oecd.org/site/0,3407,en_21571361_34374092_1_1_1_1_1,00.html.

Chart 8
Spain - Public Spending by Level of Government



Source: José Magone, *Contemporary Spanish Politics, 2nd Edition* (London & New York: Routledge, 2008), 213.

Table 9
Spain - Net central government spending* by select Autonomous
Community (as a % of AC GDP)

	<i>Andalucia</i>	<i>Basque Country</i>	<i>Castilla-La Mancha</i>	<i>Castilla y Leon</i>	<i>Catalonia</i>	<i>Extremadura</i>	<i>Madrid</i>	<i>Valencia</i>
<i>Year</i>								
1991	15.16	4.3	16.02	9.56	-6	26.13	-10.18	1.66
1992	15.99	6.38	15.01	9.88	-6.29	25.73	-11.11	2.07
1993	20	8.17	18.97	12.39	-2.44	29.9	-8.14	5.21
1994	18.21	9.07	16.88	11.81	-3.29	26.89	-7.94	4.83
1995	18.81	8.77	18.42	12.25	-3.08	27.97	-6.21	4.08
1996	16.79	9.58	13.89	9.16	-4.97	25.33	-8.78	1.61
1997	11.83	3.21	10.42	7.78	-4.15	20.32	-9.24	0.7
1998	13.16	1.71	11.34	8.66	-4.6	21.51	-9.72	0.48
1999	10.54	1.24	9.91	8.64	-6.33	19.45	-10.02	-1.73
2000	8.74	1.54	9.6	7.95	-6.21	18.24	-10.69	-2.23
2001	7.9	0.35	8.54	7.28	-6.36	17.2	-10.47	-2.96
2002	6.68	1.99	5.55	13.42	-6.72	18.67	-12.54	-2.56
2003	5.87	2.1	8.25	7.23	-5.91	15.99	-12.69	-2.44
2004	8.02	3.14	7.82	7.28	-5.19	16.08	-11.91	-2.08
2005	4.09	3.37	5.99	5.76	-6.46	15.8	-13.06	-3.63

* Note: Net central government spending is calculated by subtracting total revenues collected in a particular Autonomous Community by the central government from total central government spending in that AC.

Source: Ezequiel Uriel Jiménez & Ramón Barbéran Ortí, *Las Balanzas Fiscales de las Comunidades Autónomas con la Administración Pública Central (1991-2005)* (Bilbao: Fundación BBVA, 2007), 302-305.