motivations can actually crowd-out cooperation and lead to sub-optimal outcomes. Chapter 10 by Christina Fong, Samuel Bowles and Herbert Gintis is an ambitious exercise which argues that the very nature of the welfare state and the policies enacted therein may be a reflection of strongly reciprocal tendencies in humans. In Chapter 11 Truman Bewley examines whether strong reciprocity can explain the downward rigidity of wages in labour markets even in the face of persistent unemployment. In the following chapter Dan Kahan looks at the legal implications of strong reciprocity and whether research findings in this area might inform our approach to myriad problems such as ensuring greater tax compliance and fighting street crimes. In the last chapter Samuel Bowles and Herbert Gintis attempt to integrate the findings regarding strong reciprocity within the social capital framework and suggest that “community” rather than “social capital” is a more apt term for referring to such predispositions. I felt that this was the weaker section of the volume because in some cases the connection between the phenomena in question and strong reciprocity seemed tenuous to me. This is true, for instance, about some of the arguments made by Fong, Bowles and Gintis in attempting to draw a connection between strong reciprocity and the policies of the welfare state as well as Bewley’s arguments about reciprocity in the work place and the consequent downward rigidity of wages. It seems to me that other factors – besides strong reciprocity – such as reciprocal altruism might also explain some of these findings. Nevertheless the chapters in this section are certainly thought-provoking and fascinating.

This is a superb collection that not only provides a comprehensive overview of the evidence in favour of strong reciprocity and how it could have evolved, but also extends the discussion to look for evidence of strong reciprocity among small-scale societies of hunter-gatherers as well as non-human primates and then goes on to examine the implications of strong reciprocity for public policy. However in making their case the editors of the volume adopt a broad-minded stance and there is no party-line here. Contributors to the volume do not always agree about the interpretation of evidence and provide alternative views on occasions. But the result is a volume that is bound to be thought provoking and should be essential reading for all researchers interested in questions of social norms and human cooperation across disciplinary boundaries. Regardless of whether one agrees with the thesis being advanced here or not, the evidence provided and the arguments that accompany them should provide food for thought even for sceptics. Admittedly research on strong reciprocity and its policy implications is still at a nascent stage but this is important and valuable work that will provide a new understanding of cooperation and the formation of virtuous norms. I cannot put it any better than Daniel Kahnemann who comments on the book’s dust jacket “This book represents social science at its interdisciplinary best: an exhilarating mix of game theory, evolutionary biology, experimental economics, cultural anthropology, grammatology and policy analysis”.

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Establishing fiscal federalism in theory offers an opportunity to combine the economic advantages of large and small countries. The federal government can arrange for free trade and provide collective goods to a large territory, and at the same time decentralized government can accommodate the preferences for variety and democratic control among citizens. Division of power and authority in a government structure allows for these double gains. Normative prescriptions for the assignment of responsibilities for services and taxation to promote economic efficiency are worked out in a comprehensive literature (Musgrave–Oates–Tiebout). When the division of labor between central and local governments is designed, the main tradeoffs relate to heterogeneity and externalities. Heterogeneity motivates decentralization, while externalities necessitate centralization.
The above understanding is now typically called ‘first generation’ fiscal federalism. It is institution free. The second generation addresses fiscal and political institutions and how they influence the outcome of federalism. The new literature is motivated by serious concerns about the fiscal performance of federalism in several countries. Jonathan Rodden’s new book focuses on fiscal discipline and in particular addresses the macroeconomic crisis in Brazil and the worry about subnational debt in Germany. Fiscal indiscipline is not an issue in the first generation literature.

Rodden’s book is developed out of his PhD dissertation in political science at Yale University. He starts out with the thinking around the US constitution and ‘The Federalist’ by Hamilton, Jay and Madison. Alexander Hamilton is associated with a centralist view of federations and with a warning that fragmented federations are weak. Divided sovereignty leads to inefficiency. At the same time he developed the principles for divided sovereignty. This is Hamilton’s paradox discussed throughout the book: The willingness to divide sovereignty and the concern that divided sovereignty will mess up economic performance.

Jonathan Rodden offers interesting case studies of Brazil and Germany built into a broad understanding of the challenges to the design of fiscal federalism in practice. Both country experiences deal with unfortunate fiscal arrangements between the federal government and the states. Rodden’s contribution is to link the fiscal arrangements and the political institutions and to draw on insights both in economics and political science. The working of fiscal organization depends on the working of the political system. He elaborates how the political system at the national level is linked down to the politics in the states, and how the politics of the states can pervert the politics of the federation.

The book is built around two econometric cross-country analyses and two country studies. The first econometric analysis is basically fiscal and investigates fiscal indiscipline. Fiscal indiscipline is measured by the subnational public deficit and the total public deficit. The second econometric analysis introduces politics, in particular vertical co-partisanship between the federal and the state levels. The case studies of Germany and Brazil include econometric analysis of fiscal indiscipline across states in each country. But first and for all they allow for a richer understanding of how fiscal arrangements are designed and how the central–local political systems work.

Rodden’s number-crunching indicates that subnational deficits are held back when the subnational governments are less dependent on federal grants or when the federal government restricts subnational borrowing. Furthermore, fiscal indiscipline is held back by co-partisanship between central and local political leadership. In this short review I can only let these selected results stand as claims that the readers can look deeper into. The main point is that institutional aspects such as grants financing, borrowing restrictions and co-partisanship are important ingredients to understand fiscal federalism in practice. The country studies expand the menu of institutional factors. Many elements must fit together to establish a system of fiscal federalism that is conducive to economic efficiency and fiscal discipline. There are several ways to go. The text tilts towards the pessimistic Hamilton, but with a twist. Decentralization and fragmentation creates new challenges to fiscal discipline, but also it is hard to design a center that holds fiscal discipline.

This reader comes out with an additional puzzle. The book hints at a fiscal federal design where the center is strong enough to secure discipline, but at the same time weak enough to allow for local autonomy. It seems to me that all compromises in between the extremes are problematic. A strong center with all or most of the fiscal authority can work well. My own little Norway works like this. Or the locals must have the responsibility themselves, and then also take the blame when the citizens are unhappy. In the EU system the countries themselves are locals. EU countries still must take care of their own public finances, and Bruxelles don’t have the money to help them. For good probably. If Bruxelles got the money, the fiscal discipline of the countries can break down if the new EU center is not strong enough.

The book is strongly recommended for anyone interested in federalism and the issues and approaches treated will be on the research agenda for years to come.

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