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Fiscal federalism and bargaining over transfers

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Abstract

In this paper we provide a theoretical analysis of transfer sharing in a federalist economy by means of bargaining among regions and the federal government. The federal government could decide either to negotiate simultaneously with each region (bilateral negotiation), to negotiate with all regions together at the same table (multilateral negotiation), to negotiate under the pattern bargaining, or to negotiate under a sequential bargaining. Pattern bargaining is the most preferable bargaining way on the point of view of the federal government. However, with one-sided asymmetric spillover effects the federal government attains a higher payoff under multilateral bargaining.

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