Governance WILEY

Helping hand or centralizing tool? The politics of conditional grants in Australia, Canada, and the United States

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Abstract

Conditional grant programs are widely used in federal systems to address the tension between decentralized policy provision and territorial equity, given constraints on constituent units' ability to raise revenues. While enhancing their financial capacity, conditional grants are often seen as reducing constituent units' policy autonomy. Against this backdrop, this article examines the actual impact conditional grants have on the capacity and autonomy of a constituent unit. We analyze key milestones in the genesis and evolution of conditional grant programs in education and healthcare in Australia, Canada, and the United States. We find that the impact of conditional grants primarily depends on constituent units' size, fiscal capacity, and distinctiveness. Conditional grants are most beneficial to smaller and/ or fiscally weaker constituent units but highly distinctive units suffer the most significant autonomy losses. If they are not to exacerbate centralization, conditional grants programs thus need to be sensitive to the preferences of the more distinctive constituent units.

1 | INTRODUCTION

Do conditional grants undermine federalism? Federations face a tension between the autonomy constituent units (cantons, provinces, states etc.) have in major policy fields and territorial equity in the goods and services citizens receive across the country. The tension arises because, in addition to different policy preferences, constituent units have unequal fiscal capacities and face macroeconomic constraints in their ability to raise revenues, leaving them financially dependent, to a greater or lesser extent, on the federal government.[1]

In addition to fiscal equalization schemes, a prominent way in which these vertical fiscal imbalances have been addressed is through conditional grant programs whereby the federal government provides financial resources to the constituent units but sets conditions on how these resources are to be used. In the United States, for instance, the states receive federal support for Medicaid, with the federal government setting national minimum standards for eligibility and coverage.

The purported benefits of federalism are predicated not only on the constituent units exercising genuine policy autonomy but also on the ability of the federal system as a whole to deliver goods and services that meet citizens' expectations. As this is contingent on constituent units' financial capacity to provide those services, conditional grants can be seen as an effective instrument to address the tension between policy autonomy and territorial equity (Oates, 1972, pp. 65–94; Boadway & Shah, 2009, pp. 93–118). However, conditional grants also allow the federal government to centralize policy-making in the name of pursuing territorial equity (Corry, 1941, pp. 224–225; Wheare, 1946, pp. 102–103; Hueglin & Fenna, 2015, pp. 170–176).

There is evidence, though, that the centralizing effect of conditional grants may have been overestimated. Conditions are typically negotiated between the two sides and constituent units often welcome, or even request, the development of conditional grant programs. The real impact of conditional grants thus depends on how they affect the trade-off between capacity and autonomy constituent units often face.

While conditional grants are frequently mentioned in the literature on federalism and intergovernmental relations (e.g., Corry, 1941, pp. 224–225; Wheare, 1946, p. 103; Birch, 1955, p. 7; Watts, 1999, p. 1; Hueglin & Fenna, 2015, pp. 170–176), their politics have not been systematically investigated. Hence, we have limited knowledge regarding their impact across systems.

In this paper we provide a first comparative exploration of the impact of conditional grants in federations by analyzing key milestones in the major conditional grant programs in education and healthcare in Australia, Canada, and the United States. We approach impact from the perspective of each constituent unit and define it as the difference between the gain in capacity and the loss of autonomy deriving from its participation in a conditional grant program. We find that, overall, conditional grants increase constituent units' capacity significantly while eroding their autonomy only to a modest extent, hence they generally have a beneficial net impact. Their impact, however, is uneven, across federations, constituent units, and policies. Overall, conditional grants appear to be less beneficial to the constituent units in Australia and Canada than in the United States. In each federation, the weaker and less distinctive units are the greatest beneficiaries while the highly distinctive units suffer the most significant autonomy losses. While the centralizing effect is thus mainly consensual for most units, it is more 'coercive' for the highly distinctive ones.[2] These findings shed light on the extent to which conditional grants can help addressing the tension between constituent unit policy autonomy and territorial equity federations—and, more widely, multilevel political systems—face.

2 | THE ROLE OF CONDITIONAL GRANTS IN FEDERAL SYSTEMS

In federal states, the constitutional division of powers typically reserves major policy responsibilities such as education and healthcare to the constituent units. Fully autonomous policy-making by the constituent units, however, can result in territorial disparities in the provision of public goods and services. This may clash with the expectation that citizens of a federation are entitled to receive broadly comparable goods and services regardless of their place of residence (Schapiro, 2020). Moreover, constituent units have unequal fiscal capacities and face macroeconomic constraints in raising revenues, which affects their ability to provide these services. The federal government, meanwhile, collects a disproportionate share of public revenues (Corry, 1941, p. 224; Wheare, 1946, pp. 102–103; Oates, 1972: esp. 144; Boadway & Shah, 2009, pp. 93–118).

Given its superior fiscal position, the federal government can support policy delivery by the constituent units through the provision of conditional grants, that is transfers earmarked for specific services (Fenna, 2008, p. 509). Conditional grants allow the federal government to foster territorial equity by setting federation-wide standards without formally usurping constituent unit authority to tailor public policy to the preferences of their populations (Corry, 1941, pp. 224–225; Birch, 1955).

Because conditional grants allow the federal government to set policy objectives in areas of constituent unit jurisdiction, however, they are widely seen as undermining constituent units' autonomy (Corry, 1941, pp. 224–225; Wheare, 1946, pp. 102–103; Bednar, 2009, p. 69; Hueglin & Fenna, 2015, pp. 170–176). Although participation is voluntary, conditional grants tend to be thought of as an 'offer that cannot be refused', allowing the federal government to impose conditions unilaterally (e.g., Fenna, 2008, p. 515). Consequently, the growing use of conditional grants is considered to be a prominent aspect of the centralization most federal systems have experienced, whereby control over public policy has increasingly shifted, de jure or de facto, from the constituent units to the federal government (Dardanelli et al., 2019).

However, conditions are typically negotiated between the two sides rather than being imposed by the federal government (Boxall & Gillespie, 2013; Dinan, 2011; Ingram, 1977; Karch & Rose, 2019; Nugent, 2009; Taylor, 2009). Constituent units often welcome the development of conditional grant programs, especially if the policy objectives of the federal government appear to be in line with their own (Derthick, 1970, p. 59; Hayday, 2005, p. 48; Boxall & Gillespie, 2013, p. 57; Rose, 2013, pp. 49–50; Karch & Rose, 2019, p. 10). They may even ask the federal government to introduce a conditional grant scheme to support their existing policy programs (Hayday, 2005, p. 48; Taylor, 2009, p. 366; Fusarelli, 2009, p. 121). As Karch and Rose (2019, p. 8) note, constituent units can be among the most vocal defenders of a conditional grant program due to self-reinforcing policy feedback effects. If a grant program is consistent with its own policy priorities and if a constituent unit considers the federal funding offer to be satisfactory, participation in the program delivers a real gain in capacity and does not erode its policy autonomy.[3] The magnitude and nature of the centralizing effect of conditional grant programs thus depends on their actual impact, meaning the marginal gain of capacity they offer—that is the volume of funding a constituent unit receives—versus the marginal loss of autonomy they entail—that is the extent to which the conditions attached to the grants deviate from a constituent unit's policy preferences.

3 | CONDITIONAL GRANTS IN AUSTRALIA, CANADA, AND THE UNITED STATES

The tension between decentralized policymaking and territorial equity is particularly prominent in Australia, Canada, and the United States, given the dual nature of these federations and the federal government's lack of constitutional authority to provide federation-wide services in major areas. In all three federations, education is an exclusive jurisdiction of the constituent units (Capano, 2015; Vergari, 2010; Wallner, 2014). In Canada, healthcare likewise is an exclusive provincial responsibility (Gray, 1991, pp. 21–22; Maioni, 1998). A limited role of the United States' federal government regarding the regulation of healthcare has been inferred from the Commerce Clause, but it does not have the authority to provide health services (Rutkow & Vernick, 2011). Australia's federal government is responsible for primary care; however, the states operate public hospitals (Gray, 1991, p. 22; Fenna et al., 2021, p. 141). While the federal government does not have the authority to provide services in major policy areas, it is understood to have a broad spending power in all three federations, allowing it to fund policies outside its jurisdiction (Gray, 2011; Watts, 1999).

In Australia, Canada, and the United States, conditional grants have played a significant role in the development of the welfare state after the Second World War, allowing the federal government to become increasingly involved especially in education and healthcare (Maioni, 1997; Tuohy, 1999, pp. 37–61). In Australia and Canada, and to some extent in the United States, major conditional grant programs were created in the 1950s and 1960s to establish universal health care (Boothe, 2015; Boxall & Gillespie, 2013; Maioni, 1997; Tuohy, 1999). In the United States, the introduction of a grant program to support medical services for low-income individuals in 1965 (Medicaid) was part of the federal government's War on Poverty and became the "primary mechanism for providing health coverage to low-income Americans" (Michener, 2018, p. 8). Education grants, targeting disadvantaged students, served a similar purpose (Anderson, 2007, p. 62), although, over time, their objective shifted to the promotion of learning standards and assessments for all students. Similarly, in Australia, the federal government introduced recurrent grants for public schools to promote educational equality across the federation (Lingard, 2000, p. 26; Capano, 2015, pp. 328–329). Over time, both the Australian and the US federal government expanded their programs, eventually setting standards for many aspects of primary and secondary education (Fenna, 2019, pp. 36–37; Kincaid, 2019, pp. 175–177). In Canada, the federal government used conditional grants to promote bilingualism in education as part of its efforts to maintain the unity of the country (Hayday, 2005). Although a small program in scope and size, it is symbolically an important program given the linguistic tensions in the Canadian federation.

4 | CONCEPTUALIZING AND THEORIZING THE POLITICS OF CONDITIONAL GRANTS

4.1 | Negotiating conditional grants: Disagreement and influence

We conceptualize negotiations about conditional grant programs between the federal government and each constituent unit as a two-stage process (Ingram, 1977). The first stage is the federal government's proposal[4]—a given amount of funding and a set of policy conditions—which each constituent unit evaluates against its own preferences regarding funding and policy. For instance, the federal government may propose a grant with a 50% matching rate and require

the constituent units to implement national standards and to submit annual reports on progress. The outcome of interest in this stage is the emergence of *disagreement* between the two sides, which can be thought of as the distance between their respective preferences regarding funding and/or policy conditionality. Disagreement over funding typically materializes as a demand by a constituent unit for more funding than what the federal government offered in its initial proposal. For example, a constituent unit may request a 60% contribution instead of 50%. Disagreement over conditionality materializes as requests by a constituent unit to change or withdraw policy conditions. A unit may reject annual reporting, for instance, but agree with national standards (or oppose national standards too). The second stage of the process is that of negotiating the final shape of the program. If disagreement occurs, the constituent units attempt to influence funding levels and conditionality (Hayday, 2005, p. 178; Dinan, 2011, pp. 400–407; Boxall & Gillespie, 2013, p. 58; Rose, 2013, p. 14; Karch & Rose, 2019, pp. 99–100). Constituent units may negotiate individually with the federal government. They may also decide to join forces and negotiate collectively, if their preferences overlap.[5] The outcome of interest in this stage is the degree to which a constituent unit succeeds in pushing the final design of the program closer to its preferences, which we call *influence*.

4.2 | Impact on capacity and autonomy

The final design of the program will be located somewhere on the spectrum between the federal government's proposal and the preferences of a constituent unit. The residual distance between the final shape of the program and a constituent unit's preferences represents the *impact* the program has on the latter's capacity and autonomy. Impact is thus a function of initial disagreement and the extent to which a constituent unit can exercise influence. A highly beneficial impact can be the outcome of low initial disagreement or strong influence if initial disagreement is high.

Given that they provide additional resources, conditional grant programs can always be assumed to lead to a gain in capacity for a constituent unit. The size of the gain is represented by the residual disagreement over funding between the two sides, meaning the degree of disagreement after influence has been factored in. High residual disagreement signals remaining dissatisfaction with the adequacy of the funding provided, from which it can be inferred that a constituent unit considers such funding to represent only a limited gain in capacity. Conversely, low or no residual disagreement indicates satisfaction with the funding provided, hence a more significant gain in capacity.

As regards autonomy, impact is determined by the size of the residual disagreement over conditionality, after influence has been taken into account. If residual disagreement is zero, a program can be considered not to constrain the autonomy of a constituent unit at that point in time. From this perspective, even a program with high 'nominal' conditionality can be deemed not to lead to a loss of autonomy if its conditions are in line with a constituent unit's policy preferences. If residual disagreement is greater than zero, its size represents a corresponding loss of autonomy: the greater the residual disagreement, the more autonomy is reduced. In the example above, residual disagreement is high if the federal government refuses to increase its funding contribution and insists on annual reporting. Residual disagreement is absent if the federal government increases its contribution to 60% and concedes on the reporting requirements.

Net impact is the difference between the gain in capacity and the loss of autonomy, with the two dimensions conceptualized, for the sake of operationalization, to be of equal value to a

constituent unit. The most beneficial net impact is a maximum gain in capacity and a minimal loss of autonomy. Conversely, the least beneficial impact is a minimal gain in capacity and a maximum loss of autonomy. The greater the loss of autonomy for a constituent unit, the higher the centralizing effect of its participation in the program.

4.3 | Conditions for disagreement and influence

What conditions can be expected to lead to disagreement between the federal government and a constituent unit regarding funding and/or policy conditionality, and under what conditions can a constituent unit be expected to have influence?

Following a long tradition of thought stretching back to *The Federalist* (Madison [1788] 2000, p. 236; Simeon, 1972, pp. 38–39; Watts, 2008, p. 72), large constituent units (by population) can be expected to be more willing to stand up to the federal government, given their superior resources in terms of legislative professionalization, administrative capacity, and size of their representation in the federal legislature (Hayday, 2001, p. 65; Squire, 2007, p. 219; Taylor, 2009, p. 65; Rose, 2013, pp. 15, 75; McCann et al., 2015, p. 500). Therefore:

H1 *A large constituent unit is likely to disagree more strongly than a small unit.*

Although all constituent units are generally keen to preserve their policy autonomy, fiscally weaker units may be willing to accept more onerous conditions given the financial incentives (Hayday, 2005, p. 48; Boxall & Gillespie, 2013, p. 57; Rose, 2013, pp. 49–50). Fiscally strong constituent units are less dependent on federal transfers and can thus afford to "leave money on the table" (Nicholson-Crotty, 2012; Hueglin & Fenna, 2015, pp. 171,176–177).[6] Thus:

H2 *A fiscally strong unit is likely to disagree more strongly than a fiscally weak unit.*

The third main condition we explore is distinctiveness. The center-periphery cleavage has long been recognized as one of the fundamental lines of political conflict in Western democracies (Lipset & Rokkan, 1967; Rokkan & Urwin, 1983). More recently, Cartrite and Miodownik (2016) found language differences and geographical remoteness to be key determinants of regional political distinctiveness. In this light and based on evidence by Hayday (2005) and Taylor (2009), we expect highly distinctive constituent units to have policy preferences that are different from those of the federal government:

H3 *A highly distinctive unit is likely to disagree more strongly than a less distinctive unit.*

There is evidence that disagreement occurs when the federal government and a constituent unit are controlled by different parties compared to situations of party congruence (Nicholson-Crotty, 2012, p. 461; Boxall & Gillespie, 2013, pp. 127–128; Karch & Rose, 2019, pp. 130, 204). This is because the two sides are likely to have divergent policy preferences due to ideological differences and electoral positioning (Krause & Bowman, 2005). The effect of this condition is likely to be stronger in Australia given its vertically integrated party system, compared to Canada, where party integration is weak and regional parties exist, and the United States, where parties are weakly integrated but ideologically polarized.

H4 *A constituent unit governed by a different party than the federal government is likely to disagree more strongly than a unit governed by the same party.*

In addition to these properties of a constituent unit, we expect two program features to lead to disagreement.

The first one is the *stage* of a conditional grant program, that is whether negotiations concern the introduction of a new program or a reform of an existing one. As a result of sunk costs and policy feedbacks, subsequent revisions of grant programs tend to be less controversial than new programs (Ingram, 1977, pp. 503–504; Hayday, 2005, pp. 150–151, 175):

H5 *A constituent unit is likely to disagree more strongly about the introduction of a new program than the reform of an existing one.*

The second is whether the *initiative* to introduce a program, or amend an existing program, came from the federal government or a constituent unit. Conditional grant programs are sometimes requested by constituent units already operating their own program with similar objectives, for which they are keen to secure additional funding (Derthick, 1970, p. 59; Hayday, 2005, p. 48; Taylor, 2009, p. 366; Fusarelli, 2009, p. 121). A program (or reform) is thus more likely to be controversial if initiated by the federal government:

H6 *A constituent unit is likely to disagree more strongly if the initiative came from the federal government rather than itself.*

We expect these conditions also to have a bearing on influence, that is on a constituent unit's ability to co-determine the final shape of the program. Most of them operate in the same causal direction as for disagreement.

Given their superior resources discussed above, large and/or fiscally strong constituent units are more likely to be successful in lobbying the federal government, especially if the latter makes the participation of the largest units, or a certain proportion of the population, a condition for launching a program (Taylor, 2009, p. 223):

H7 *A large constituent unit is likely to have greater influence than a small unit.*
H8 *A fiscally strong constituent unit is likely to have greater influence than a fiscally weak unit.*

Following evidence from Canada that more distinctive units such as Alberta and Quebec have often been successful in winning concessions from the federal government (Hayday, 2005; Taylor, 2009), we expect distinctive units to have more influence:

H9 *A highly distinctive constituent unit is likely to have more influence than a less distinctive unit.*

As regards party congruence, we expect its association with influence to be the opposite of its association with disagreement. In situations of party congruence, ideological differences and electoral incentives to diverge are weaker, especially in federations with integrated party systems, such as Australia. Hence, the federal government can be expected to be more willing to accommodate a constituent unit's requests. Moreover, the constituent unit can use intraparty channels to lobby the federal government (Esselment, 2012):

H10 *A constituent unit governed by the same party in office at the federal level is likely to have more influence than a unit governed by a different party.*

When a new conditional grant program is being established, there is a more open 'policy field', path dependencies are absent, and constituent units do not depend on federal financial

support yet. Moreover, the federal government needs the cooperation of the constituent units to create the program. Therefore:

H11 *A constituent unit is likely to have more influence on the design of a new program than the reform of an existing one.*

Likewise, a constituent unit's influence should be higher when the initiative for a new program or its reform comes from it rather than from the federal government:

H12 *A constituent unit is likely to have more influence if the initiative came from it rather than the federal government.*

When interests and preferences diverge among the constituent units, some units may accept the federal government's conditions while others oppose them. Consequently, each constituent unit lobbies the federal government on its own (Hayday, 2005, pp. 46–55; Dinan, 2011, pp. 398, 403–404; Rose, 2013, pp. 65, 76). However, if their interests align, constituent units may negotiate collectively with the federal government. We expect co-ordination to lead to more influence because constituent units gain leverage by forming a common front *vis-à-vis* the federal government (Marbach & Leckrone, 2002, p. 56; Hayday, 2005, pp. 159–160, 177; Dinan, 2011; Rose, 2013, pp. 65–66):

H13 *A constituent unit that negotiates in coordination with other units is likely to have more influence than a unit negotiating individually.*

5 | RESEARCH DESIGN AND METHODS

5.1 | Case selection

Conditional grants are used in all democratic federations. Given the dual nature of the original division of powers, the paucity of formal constitutional amendments, high vertical fiscal imbalances, and the broad federal spending power, conditional grants have been used most prominently and have been most politically salient in Australia, Canada, and the United States (Fenna, 2008, p. 518; 2019: 39–40; Gray, 2011; Kincaid, 2019, pp. 179–180; Lecours, 2019, p. 72; Dardanelli et al., 2019, pp. 202–203). By selecting Australia, Canada, and the United States, we thus examine most likely cases that best lend themselves to an exploration of the politics of conditional grants. Although the three countries obviously differ in a number of ways, they are the most similar systems among democratic federations and thus allow us to keep country-level conditions relatively fixed and focus our analysis on constituent unit-level conditions.

The rationale for selecting education and healthcare is two-fold: (a) they are two of the three largest categories of general government expenditure in Western countries (OECD, 2021, p. 87); (b) they are policy areas constitutionally reserved to the constituent units, in the three federations under examination as well as in many other federations (Watts, 2008, p. 197; Dardanelli et al., 2019, p. 10). In each federation and policy area, we focused on the largest grant program—these are school grants and Medicare hospital grants in Australia, the Official Languages in Education program and Medicare in Canada, and Title I of the *Elementary and Secondary Education Act* and Medicaid in the United States.

Our units of analysis are the individual constituent units. Given the labor intensity of the data collection and coding required, we selected a representative sample of units based on the criteria

of size, fiscal capacity, and distinctiveness to obtain variation on the conditions we explored (see Online Appendix A). The Australian states chosen were New South Wales, South Australia, Tasmania, and Western Australia. Among the Canadian provinces we selected Alberta, Ontario, and Quebec for both policies plus Manitoba and New Brunswick for education (because of the size of their Francophone minorities), and British Columbia and Saskatchewan for healthcare (because of their pioneering role in public health insurance). In the United States we selected California, Idaho, Massachusetts, Michigan, and Mississippi via a cluster analysis (Everitt et al., 2011) based on size, fiscal capacity, and distinctiveness (see Online Appendix A).

We examined disagreement and influence of each unit at the main 'milestones' in the conditional grant programs we examined. Milestones are the negotiations that led to the establishment of the program and the most important reforms, that is when funding arrangements and/or policy conditions changed significantly. They take the form of federal legislation or intergovernmental agreements or are part of the federal budget. Regarding Medicaid, for instance, the first milestone was the establishment of the program through the *Social Security Act Amendments* of 1965. Although the program must be reauthorized every 4 to 5 years, the first major reform was in 1981 when the *Omnibus Budget Reconciliation Act* of that year cut funding significantly, which all states disagreed with, while relaxing several policy conditions, which they welcomed. The total number of constituent unit-milestone observations is 106.

5.2 | Measurement

In line with the conceptual and theoretical framework outlined above, we focus on three outcomes: disagreement, influence, and impact. Disagreement and influence may relate to funding, conditionality, or both. We measured the magnitude of disagreement as the distance between the preferences of a constituent unit and the federal government's proposal regarding funding and/or conditionality. To measure disagreement, we adopted an inductive approach in that we relied on a constituent unit's own assessment of the expected gain in capacity versus loss of autonomy embodied by a federal proposal. Hence, we measured the expected capacity gain versus autonomy loss as perceived by a constituent unit, instead of the nominal gains or losses that could be inferred from a proposal.

We measured disagreement over funding on a four-point scale that seeks to capture whether it regarded minor aspects such as the coverage of administrative costs or a fundamental issue such as a reduction in core funding (Table 1.1 in Online Appendix A). For example, we coded Manitoba's and Quebec's request for administrative costs to be covered by the *Official Languages in Education Program* in 1970 as modest disagreement (0.33) whereas we coded the US states' opposition to funding cuts to Medicaid in the *Balanced Budget Act* of 1997 as major disagreement (1). Given the more complex nature of policy conditionality, we measured disagreement over it on a six-point scale that seeks to capture the number and importance of the policy conditions a unit objected to (Table 1.2 in Online Appendix A). In the negotiations on the creation of a Canadian hospital insurance program in 1957, for example, Saskatchewan objected to the condition that a substantial majority of provinces sign up for the program to be established whereas Quebec opposed the program *tout court* on constitutional grounds. We thus coded Saskatchewan's disagreement as minor (0.2) and Quebec's as fundamental (1).

As mentioned above, we conceptualize influence as the extent to which a constituent unit moved the final shape of the program closer to its preferences compared to the initial federal proposal. We measure it in two steps. First, we gauge whether a constituent unit was able to

secure concessions from the federal government on a point of disagreement. In a second step, we link the extent of the concession won to the magnitude of the disagreement by multiplying the two scores. The resulting measure is thus intended to capture both the extent of the federal concession and the seriousness of the underlying disagreement.[7]

Given our conceptualization of impact as the distance between the final shape of a program and the preferences of a constituent unit, we measured it as the difference between disagreement and influence. The impact on capacity is the residual disagreement over funding, which represents the gain in capacity a constituent unit expects to derive from it. The impact on autonomy is the residual disagreement over policy conditionality, which represents the loss of autonomy for a constituent unit. The gain in capacity is always positive. Therefore, we measured it by subtracting the residual disagreement over funding, that is, the difference between disagreement and influence over funding, from 1, which represents a fully satisfactory gain in capacity from the perspective of a constituent unit.[8] The loss of autonomy, by contrast, is negative, or, at best, neutral. Hence, we measured it directly as the residual disagreement over conditionality, that is, the difference between disagreement and influence over conditionality. We then calculated net impact, as the difference between impact on capacity and impact on autonomy, for each observation.

As outlined in the previous section, we explore the role of the following conditions: size, fiscal capacity, distinctiveness, party congruence, stage, initiative, and coordination. We measured size and fiscal capacity on continuous 0–1 scales based on population and gross provincial/state product per capita, respectively, normalized at the country level. Distinctiveness is a normalized composite indicator of three components (peripherality, cultural distinctiveness, and federal political alienation), measured on four-point scales. We measured party congruence on a six-point scale, seeking to capture variation ranging from no congruence to full congruence. We measured initiative on a four-point scale, where the two end points are initiatives by a constituent unit or by the federal government, respectively, and the two middle points represent intermediate situations. Lastly, stage and coordination were measured on binary scales depending on whether the observed negotiations concerned a new program or an existing one and on whether the constituent units coordinated their negotiations or not. Online Appendix A details the scales, coding decisions, and sources (Online Appendix B contains the dataset).

5.3 | Causal analyses

To explore the conditions leading to disagreement, influence, and impact we employed the Qualitative Comparative Analysis (QCA) method. QCA seeks to combine the strengths of both qualitative and quantitative approaches by using deep, case-focused knowledge to analyze complex causation and reach parsimonious modest generalizations (Ragin, 2008; Schneider & Wagemann, 2012). It is thus a particularly useful approach in medium-N, case-oriented research with qualitative raw data such as our study. We employed the fuzzy-set variant of QCA (fsQCA), which is based on the notion of 'degrees of membership' in categories ('sets') and allows for a fine-grained measurement of outcomes and conditions. Causal connections between outcomes and conditions are conceptualized in terms of 'set relations', whereby degrees of membership in the set of cases displaying the outcome are analyzed in relation to degrees of membership in the set of cases sharing the condition/s. This is done by identifying which conditions or 'configurations' of conditions are necessary and/or sufficient to produce the outcome of interest (Ragin, 2008; Schneider & Wagemann, 2012).

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The measurement scales described above and detailed in Online Appendix A were employed as manually calibrated fuzzy-sets to perform the QCA analyses of necessity and sufficiency. These were carried out with fsQCA3.0, a software specifically designed to perform QCA (Ragin & Davey, 2016). The necessity analysis is performed in a single step. The sufficiency analysis proceeds in two steps. fsQCA3.0 first organizes conditions and outcome into a fuzzy-set 'truth table' matching each configuration of conditions to the outcome. It then performs a so-called 'minimization' operation to produce complex, parsimonious, and intermediate 'solutions.' Such solutions are configurations of conditions which, through their consistent association with the outcome, can be seen as being sufficient to produce the latter (Ragin, 2008, pp. 124–144). Intermediate solutions "strike a balance between parsimony and complexity, based on the substantive and theoretical knowledge of the investigator" (Ragin, 2008, p. 175) and are thus the most informative. Robustness checks were performed by varying the cut-off points used for the minimization operation and different forms of calibration, as well as by analyzing the conditions for the non-occurrence of an outcome.[9]

6 | DESCRIPTIVE STATISTICS

Our analysis shows that the impact of conditional grant programs was generally very beneficial to the constituent units in the three federations. On a normalized 0–1 scale, where 0 represents the least beneficial net impact and 1 the most beneficial impact,[10] only a few constituent unit-milestone observations scored below 0.5. Most clustered at the upper end of the distribution (Figures 1–3).

Aggregate net impact across constituent units at each milestone was also above 0.5 in all instances bar the 2008 education milestone in Australia. Mean net impact across constituent units and milestones was above 0.5 in all federations and policy areas (Figure 4).

Overall, the US states (mean net impact of 0.87) seem to benefit more than the Australian states (0.71) and the Canadian provinces (0.70). There was little difference between the two policy areas if we take the three federations together: mean net impact was 0.79 in education and 0.75 in healthcare. Sharper differences, however, can be observed if we examine the data disaggregated by federation and policy area. Mean net impact in education was 0.61 in Australia against 0.91 in the United States.[11] In healthcare, mean net impact was 0.62 in Canada but 0.80 in Australia and 0.83 in the United States (Figures 1–3). The gap between the first and the latter two scores is large enough to indicate substantive variation in the degree to which constituent units benefited from these programs in Canada versus the other two federations.

As Figure 1 shows, there was also significant variation over time, although with little in the way of clear trends. To the extent that trends can be detected, it appears that there was a broadly positive trend in healthcare in Australia (from 0.72 at the first milestone to 1 at the last milestone) and a trend in the opposite direction in healthcare in Canada (from 0.65 to 0.5). Over time, conditional grants thus seem to have become more beneficial to the Australian states, but less beneficial to the Canadian provinces.

As Table 1 shows, disagreement over funding shows sharp fluctuations over time, with no significant trends, as well as differences across federations and policy areas, notably between education (mean disagreement 0.13) and healthcare (0.67) in the United States. This reflects the fact that the states were happy with the funding offer for the Title I-program most of the time—except for a reform in 2002 (known *as No Child Left Behind*) where a few states demanded more funds (Fusarelli, 2009, p. 128). By contrast, there was substantial disagreement in healthcare
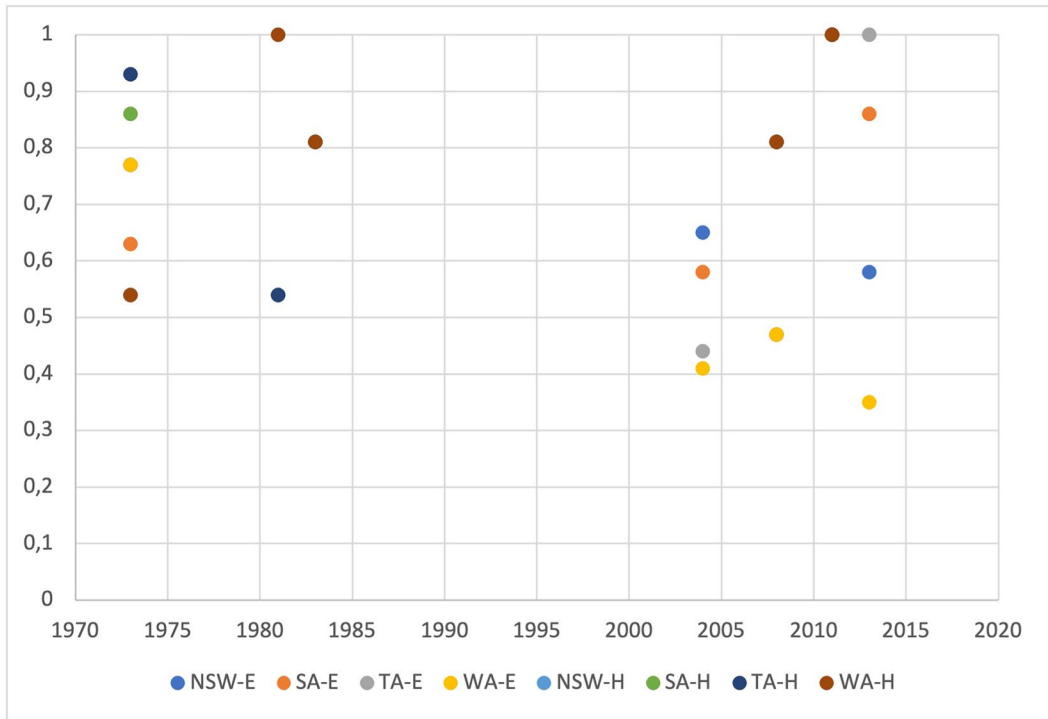
FIGURE 1 Individual net impact, Australia. The *Y* axis shows the net impact for each constituent unit at each milestone on a normalized 0–1 scale ranging from 0 = least beneficial impact to 1 = most beneficial impact; the *X* axis shows the dates of the milestones analyzed; the codes indicate the constituent unit and the policy area, for example. NSW-E, New South Wales, Education

where the federal government's proposals often included funding cuts, which the states vehemently opposed.

Disagreement over policy conditionality was less pronounced overall but significant divergence across federations and, to a lesser extent, policy areas can still be observed (Table 1). Disagreement over policy conditionality was generally higher in Canada and Australia than in the United States. The Australian states and the Canadian provinces often opposed reporting requirements and demanded that policy conditions be dropped, with some variation between states and provinces as to the specific policy conditions they objected to. Individual units were even against some reforms *tout court*. In the United States, disagreement over policy conditionality rose in both education and healthcare over time, the states rejecting several of the increasing number of conditions the federal government attached to grants in recent reforms of Title I and Medicaid. Policy conditionality also increased in healthcare in Canada whereas Australia displays very different trends in the two policy areas.

Influence was generally modest across the board, although again with significant variation between federations and, especially, policy areas (Table 2). Interestingly, constituent units were more influential in different dimensions and policy areas in different federations. The sharpest divergence can be observed in influence over funding in the United States, where the states had no influence in education but relatively high influence in healthcare. For instance, the federal government compromised on several of the funding cuts it intended to impose on Medicaid grants (Rose, 2013, p. 88) and agreed to cover a larger share of the Medicaid expansion in 2010
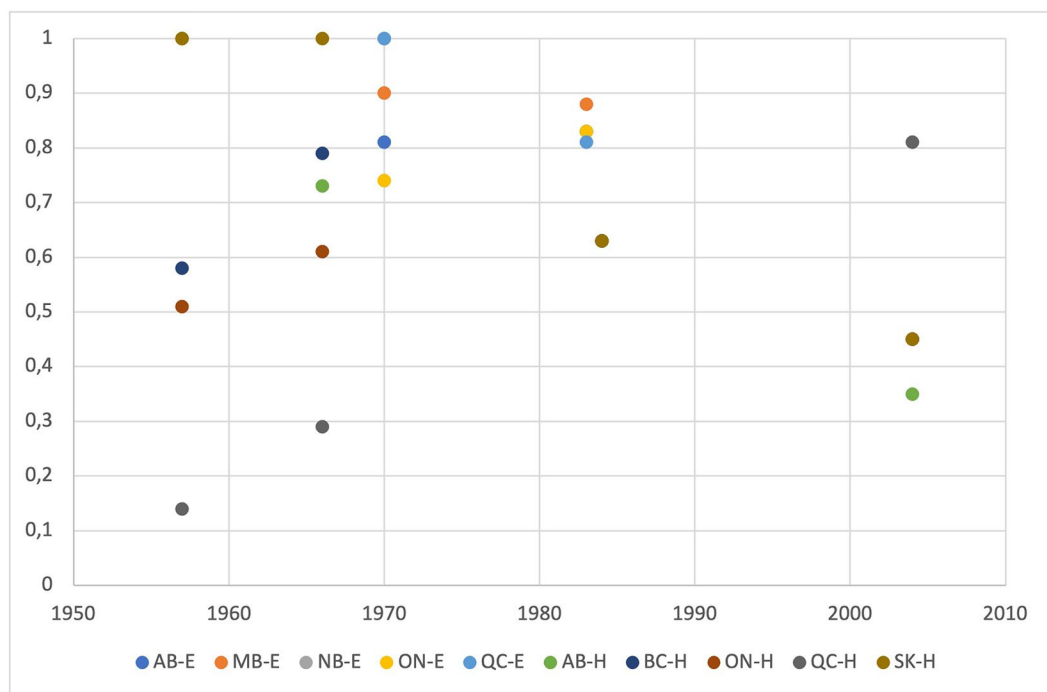
FIGURE 2   Individual net impact, Canada. The *Y* axis shows the net impact for each constituent unit at each milestone on a normalized 0–1 scale ranging from 0 = least beneficial impact to 1 = most beneficial impact; the *X* axis shows the dates of the milestones analyzed; the codes indicate the constituent unit and the policy area, for example. AB-E, Alberta, Education

(Dinan, 2011). This illustrates how influence interacts with disagreement to produce impact. Although the US states had no influence over funding in education, net impact was still highly beneficial because disagreement was very low. Conversely, high influence in healthcare could not fully compensate for the magnitude of disagreement. In Australia the constituent units were more influential in healthcare than in education, but the opposite is true for Canada. Likewise, Australia's states had more influence on funding than on policy conditionality whereas the pattern is reversed for Canada's provinces. Indeed, Australia's federal government often increased its funding offer or provided side-payments while Canada's federal government, though sometimes compromising over funding, often made concessions on policy conditions the provinces opposed—which the Australian federal government was less willing to make.

Differences are also significant among constituent units, particularly in Australia and Canada. In Australia, Tasmania and South Australia emerge as the main beneficiaries. Mean net impact was 0.75 for Tasmania and 0.73 for South Australia against 0.68 for Western Australia—the latter disagreeing more strongly with the federal government's proposals than Tasmania and South Australia, considering policy conditions to be too intrusive and funding to be insufficient, while influence was roughly similar across the Australian states. In Canada, mean net impact in healthcare[12] was 0.77 for Saskatchewan and 0.68 for Alberta but only 0.47 for Quebec. Indeed, Quebec voiced much dissatisfaction with federal offers, especially regarding policy conditionality. Despite being influential on occasion, in several instances Quebec was unable to obtain concessions from the federal government. Hence, it benefitted much less than other provinces. However, whereas the trend was negative for Saskatchewan (from 1 to 0.45) and, especially, Alberta (from 1 to 0.35), meaning
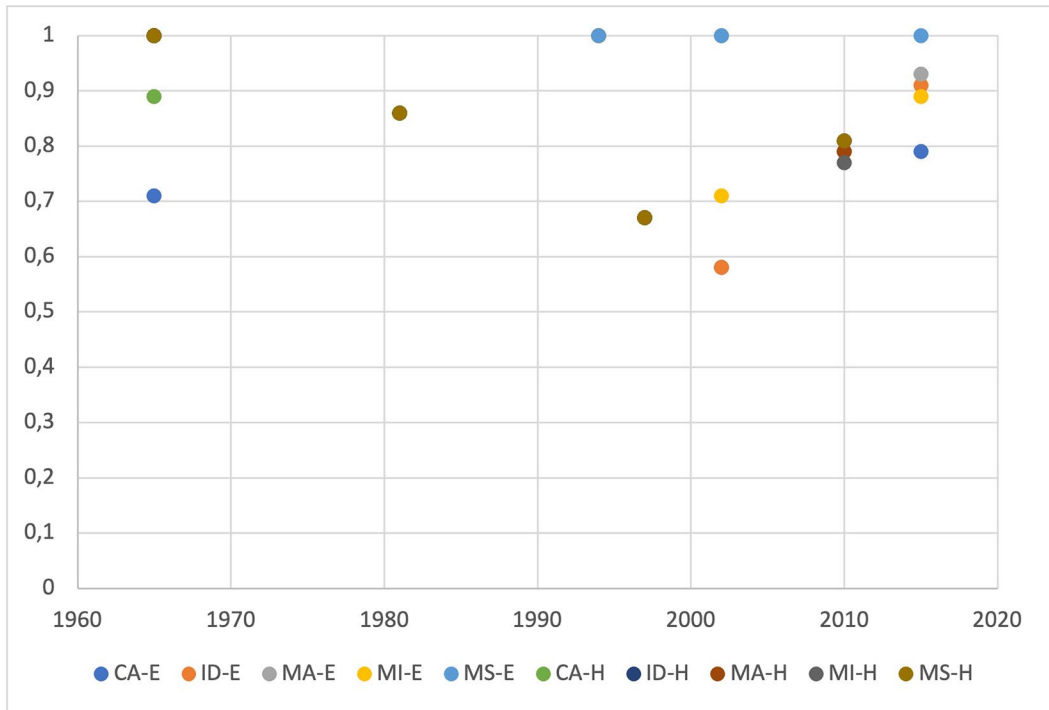
FIGURE 3 Individual net impact, United States. The *Y* axis shows the net impact for each constituent unit at each milestone on a normalized 0–1 scale ranging from 0 = least beneficial impact to 1 = most beneficial impact; the *X* axis shows the dates of the milestones analyzed; the codes indicate the constituent unit and the policy area (e.g., CA-E, California, Education)

that the extent to which these provinces benefitted declined over time, it was sharply positive for Quebec (from 0.14 to 0.81). Thus, although conditional grants have been generally less beneficial to Quebec, the impact of recent reforms was more beneficial compared to earlier milestones.

7 | QCA ANALYSES

The analysis of necessary conditions for the outcome *impactn* (highly beneficial net impact), found no condition to be necessary for the outcome to occur (Online Appendix C1.1). The analysis of sufficient conditions for the same outcome identified three causal paths. Based on a frequency threshold of 1 and a consistency threshold of 0.82, *fsQCA3.0* produced the following intermediate solution (Online Appendix C1.2):

$$\sim distinct + \sim size + \sim stage * \sim fiscap \longrightarrow impactn$$
(coverage: 0.969124; consistency: 0.863566)

Thus, three separate conditions, or configurations of conditions, are sufficient to produce a highly beneficial net impact for a constituent unit 86% of the time and in 97% of the cases. The results show that, first, highly beneficial net impact is associated with low distinctiveness (~*distinct*), meaning units such as Massachusetts, New South Wales, or Ontario that display low distinctiveness appear to benefit to a greater extent than more distinctive units such as Quebec or Western Australia. Second, highly beneficial net impact is also associated with small size (~*size*),
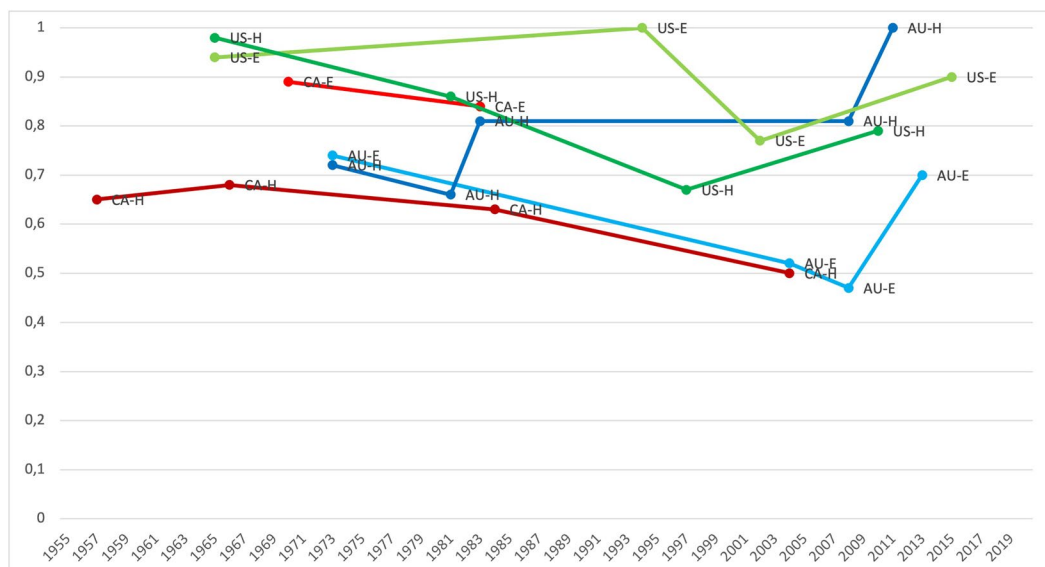
FIGURE 4 Aggregate net impact. The *Y* axis shows the mean net impact across constituent units at each milestone on a normalized 0–1 scale ranging from 0 = least beneficial impact to 1 = most beneficial impact; the *X* axis shows the dates of the milestones analyzed. AU-E, Australia, Education; AU-H, Australia, Healthcare; CA-E, Canada, Education; CA-H, Canada, Healthcare; US-E, USA, Education; US-H, USA-Healthcare

TABLE 1 Disagreement

	1[a]	2[a]	3[a]	4[a]	5[a]	Mean[b]	SD[b]
Disagreement over funding (*disaf*)							
AU-E	**0.17** (1973)	**0.67** (2004)	**0.67** (2008)	**0.50** (2013)		0.50	0.27
AU-H	**0.67** (1973)	**0** (1981)	**0.67** (1983)	**0.67** (2008)	**0.34** (2011)	0.47	0.32
CA-E	**0.40** (1970)	**0.67** (1983)				0.54	0.24
CA-H	**0.40** (1957)	**0.20** (1966)	**0.67** (1984)	**0.67** (2004)		0.49	0.30
US-E	**0.13** (1965)	**0** (1994)	**0.40** (2002)	**0** (2015)		0.13	0.27
US-H	**0** (1965)	**1** (1981)	**1** (1997)	**0.67** (2010)		0.67	0.42
Disagreement over policy conditionality (*disap*)							
AU-E	**0.40** (1973)	**0.50** (2004)	**0.60** (2008)	**0.40** (2013)		0.48	0.20
AU-H	**0.70** (1973)	**0.60** (1981)	**0.20** (1983)	**0** (2008)	**0.55** (2011)	0.41	0.34
CA-E	**0.44** (1970)	**0.56** (1983)				0.50	0.24
CA-H	**0.44** (1957)	**0.64** (1966)	**0.80** (1984)	**0.80** (2004)		0.67	0.27
US-E	**0** (1965)	**0** (1994)	**0.20** (2002)	**0.28** (2015)		0.12	0.19
US-H	**0.04** (1965)	**0.08** (1981)	**0.40** (1997)	**0.52** (2010)		0.26	0.27

Abbreviation: SD, standard deviation.

[a]mean across constituent units at each milestone, dates in brackets.

[b]across milestones.

meaning units such as Idaho, Saskatchewan, or Tasmania tend to benefit more than their larger counterparts. Finally, the combination of a negotiation being about an existing program rather than a new one (*~stage*) and low fiscal capacity (*~fiscap*) also leads to highly beneficial net impact.

TABLE 2 Influence

Relative influence over funding (*relinf*)		Relative influence over policy conditionality (*relinp*)	
Mean[a]	**SD**[a]	**Mean**[a]	**SD**[a]
AU-E	0.14	0.20	0.06	0.07
AU-H	0.35	0.21	0.30	0.25
CA-E	0.35	0.13	0.43	0.20
CA-H	0.15	0.20	0.16	0.15
US-E	0	0.00	0.15	0.09
US-H	0.48	0.15	0.30	0.22

Abbreviation: SD, standard deviation.

[a]Across constituent units and milestones. We do not provide averages for influence at each milestone because the absence of disagreement by some constituent units, which renders influence not applicable.

In other words, the impact of a conditional grant program is especially positive for fiscally weak constituent units, such as Mississippi or Tasmania, once a program is already in operation.[13]

As regards the outcome *disaf* (disagreement over funding), the analysis of necessary conditions did not find any of the conditions to be necessary for the outcome to occur (Online Appendix C3.1). The analysis of sufficient conditions did not find clear patterns (Online Appendix C3.2). The intermediate solution identified four configurations of conditions to be sufficient (with 0.83 consistency but only 0.38 coverage). Four of the conditions feature in some of the identified configurations while their negation (i.e., absence of the condition) feature in others. Only ~*stage* and *distinct* display a consistently positive association with the outcome. While H3 and H5 thus find support, we can only draw limited conclusions from these results.

A slightly clearer picture emerges in relation to the outcome *disap* (disagreement over policy conditionality). While, again, no condition is necessary for the outcome to occur (Online Appendix C5.1), the analysis of sufficient conditions, based on a frequency threshold of 1 and a consistency threshold of 0.81, produced the following intermediate solution (Online Appendix C5.2):

~stage*fiscap*distinct*~parcond + initiat*size*distinct*~parcond + initiat*stage*size*distinct

$\longrightarrow$ disap

(coverage: 0.274641; consistency: 0.875)

The solution shows that three configurations of conditions are sufficient to produce disagreement over policy conditionality 87% of the time and in 27% of the cases. The first is high fiscal capacity (*fiscap*) and distinctiveness (*distinct*) together with negotiations being about an existing program (~*stage*) and in the absence of party congruence (~*parcond*). This configuration captures the experience of Alberta and Western Australia at several milestones in both education and healthcare. The second is a configuration of large size (*size*) and distinctiveness (*distinct*) together with the initiative having come from the federal government (*initiat*) in the absence of party congruence (~*parcond*). The last configuration includes large size (*size*) and distinctiveness (*distinct*) together with the initiative having come from the federal government (*initiat*) and negotiations being about a new program (*stage*). The latter two configurations capture the experience of Quebec at several milestones in both education and healthcare. The high consistency score associated with a low coverage score indicate that these causal associations are highly consistent

but can only be observed in a few cases. These results most clearly confirm H3 (distinctiveness), while our other hypotheses find only contingent support.

Lastly, clear causal patterns did not emerge in relation to influence, over either funding (*relinf*) or policy conditionality (*relinp*). No condition is necessary for influence over funding, although lack of distinctiveness (*~distinct*) comes very close to the 0.9 consistency threshold, whereas lack of coordination (*~coordp*), surprisingly, appears to be necessary (0.92 consistency) for influence over policy conditionality (Online Appendix C7.1 and C9.1). As regards *relinf*, the analysis of sufficient conditions produced an intermediate solution consisting of two configurations of conditions, with sufficient consistency (0.87) but very low coverage (0.20) (Online Appendix C7.2). Concerning *relinp*, the intermediate solution identified has both low consistency and coverage (0.68 and 0.11, respectively; see Online Appendix C9.2). In short, our hypotheses regarding influence (H7-H13) are not confirmed.

8 | DISCUSSION

Overall, the principal conditional grant programs in education and healthcare appear to be very beneficial for the constituent units in Australia, Canada, and the United States. Small and/or fiscally weak units are those who benefit the most. The generally beneficial nature of these programs, though, does not imply that they are free from controversy. Constituent units disagree often and sometimes deeply with the federal government over both funding and policy conditionality. While disagreement over funding appears to be more diffuse, with no dominant pattern emerging, disagreement over policy conditionality is much more concentrated in a small number of units, whose most prominent trait is their distinctiveness. Our results do not indicate highly distinctive units to be more influential. Hence, these units seem to bear a disproportionate share of the autonomy losses entailed by policy conditionality.

In relation to the different perspectives put forward in the literature, these findings show that there is some evidence in favor of at least two of them. On the one hand, the claim that conditional grants perform a useful function in helping federal systems address the tension between constituent unit autonomy and territorial equity does find empirical support. On the other hand, the view that conditional grant programs are a channel of federal encroachment on the autonomy of the constituent units is confirmed, at least as far as the most distinctive units are concerned. Given that these are arguably the units for which autonomy matters most, and the federal architecture of the system is meant to protect, this is an important finding. In other words, while the nature of conditional grants' centralizing effect appears to be generally consensual, it is more coercive vis-à-vis the most distinctive units. If the experience of Quebec in the field of healthcare is any guide, however, there is ground for optimism in that, as noted above, the intensity of disagreement decreased over time. While this is a very contextualized pattern, and may be a by-product of the wider accommodation of the 'Quebec question' in Canadian politics, it indicates that the impact of conditional grant programs may become more beneficial over time, even for the more distinctive units.

Beyond these central findings, other patterns are also noteworthy. The beneficial impact of a grant program seems to be higher once a program is established than at its creation. Thus, taking the first step is sometimes the most difficult part; overcoming it delivers long-term benefits. The finding that the absence of coordination with other units is a necessary condition for a constituent unit to have high influence on policy conditionality is counter-intuitive and at odds with the

findings reported by other authors. It may be because there are only a few instances of coordination among the milestones we examined.

Lastly, the indication that conditional grants seem less beneficial to the constituent units in Australia and Canada than in the United States appears indirectly to confirm our theoretical expectations regarding the explanatory power of distinctiveness. Given that the United States lacks highly distinctive units, as we have defined them, we should expect conditional grants to be more beneficial there if high distinctiveness is a condition for disagreement.[14]

9 | CONCLUSIONS

Conditional grants play an important role in policy-making in federations and, more widely, in the governance of modern welfare states. Their use has been controversial, however, on the grounds that federal governments can use conditional grant programs to encroach on the autonomy of the constituent units, that is, as an instrument of centralization. While they have been frequently discussed in the literature, a systematic comparative analysis of the politics of conditional grants has hitherto been lacking, hence their actual impact has not been examined.

In this paper we have sought to take a first step in that direction by analyzing the main conditional grant programs in education and healthcare in Australia, Canada, and the United States. Our findings show that conditional grant disproportionately benefit smaller and fiscally weaker constituent units but also inflict significant autonomy losses on the more distinctive units. These findings indicate that conditional grants are indeed a useful tool to address the challenge of vertical fiscal imbalances and promote territorial equity, particularly against the backdrop of rising concerns over the detrimental consequences of territorial inequalities (Milanovic, 2016; Rodríguez-Pose, 2020). At the same time, they call for attention to the details of program design, not least in addressing the concerns of highly distinctive units.

We expect these findings to have potentially wider applicability beyond the three federations we have analyzed, notably in relation to the Latin American federations, which also conform to a dual model of federalism. They are less applicable, however, to federations based on a different model such as Germany and Switzerland. The main lesson that emerges from this study seems to be that conditional grant programs work best when their design is sensitive to the preferences of the constituent units, the most distinctive ones in particular. While this lesson applies to federations above all, it also has wider applicability, particularly as many unitary systems have undergone processes of decentralization. Although such decentralization stopped short of embracing federalism, it has created tiers of government with important policy responsibilities that require funding. The tensions between policy responsibilities, fiscal capacity, and territorial equity, and their consequences for effective policy-making, thus also arise in these contexts.

CONFLICT OF INTEREST
The authors declare that they have no conflict of interest.

DATA AVAILABILITY STATEMENT
The data that supports the findings of this study are available in the supplementary material of this article.

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ENDNOTES

[1] While unequal fiscal capacities and macroeconomic constraints in raising revenues can be addressed by fiscal equalization and/or unconditional grants, conditional grants allow the federal government to set federation-wide policy standards.

[2] We borrow the term coercive from Kincaid's (1990) concept of coercive federalism.

[3] It may de facto constrain a subsequent constituent unit government at a later point in time although in principle such a government would not be de jure bound by it.

[4] A conditional grant program may also be requested by one or more constituent units, but the formalization of the proposal nonetheless rests with the federal government. This is also the case when a program is up for renewal.

[5] The drivers behind constituent unit cooperation are beyond the scope of this article.

[6] QCA is not sensitive to multicollinearity, hence any correlation between fiscal capacity and size would not be a problem for the empirical analysis. Several examples in our sample of fiscally weak large units and fiscally strong small units justify treating the two as distinct conditions.

[7] We refer to the measures obtained in the first step as *absolute* influence and the final measures as *relative* influence.

[8] To calculate impact on capacity (*impactc*), we transformed the original 0, 0.33, 0.67,1 scale used to measure disagreement over funding (*disaf*) into a 0, 0.25, 0.5, 0.75 scale, so that the difference between 1 and residual disagreement is always positive.

[9] See Online Appendix C for details.

[10] To make the net impact scores more easily comparable to the other measures, we have rescaled the raw $-0.75–1$ scale into a normalized 0–1 scale.

[11] Given the presence of fewer milestones, mean scores are less meaningful for education in Canada.

[12] Given the presence of fewer milestones, education in Canada does not lend itself to a meaningful analysis of consistent patterns across provinces and over time.

[13] Robustness checks performed by varying calibration, reported in Online Appendix C11–C14, confirmed the stability of these results.

[14] Variation in impact across the three federations may also be a product of the differences between them. As our primary focus is on individual constituent units, we do not explore these country-level differences.

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