1 Supplemental Appendix for "National Conflict in a Federal System"

Derivation of $\Psi^*(\cdot)$

From the text,

$$\Psi^{*}(F) = \int_{\underline{\alpha}}^{F} Fp(\alpha)d\alpha + \int_{F}^{\overline{\alpha}} \alpha p(\alpha)d\alpha$$
$$= FP(F) + \int_{F}^{\overline{\alpha}} \alpha p(\alpha)d\alpha \qquad (A.1)$$

Integrating the second expression in the second line of (A.1) by parts,

$$\int_{F}^{\overline{\alpha}} \alpha p(\alpha) d\alpha = \left[\alpha P(\alpha) - \int P(\alpha) d\alpha \right]_{F}^{\overline{\alpha}}$$
$$= \overline{\alpha} P(\overline{\alpha}) - \hat{P}(\overline{\alpha}) - FP(F) + \hat{P}(F),$$

where $\hat{P}(x) = \int_{\underline{\alpha}}^{x} P(\alpha) d\alpha$, i.e., the integral of the cdf. Substituting into (A.1) and noting that $P(\overline{\alpha}) = 1$, we have

$$\Psi^*(F) = \overline{\alpha} - \hat{P}(\overline{\alpha}) + \hat{P}(F). \tag{A.2}$$

By definition, $E[\alpha] = \int_{\underline{\alpha}}^{\overline{\alpha}} \alpha p(\alpha) d\alpha$. Integrating by parts as above gives

$$\int_{\underline{\alpha}}^{\overline{\alpha}} \alpha p(\alpha) d\alpha = \overline{\alpha} P(\overline{\alpha}) - \hat{P}(\overline{\alpha}) - \underline{\alpha} P(\underline{\alpha}) + \hat{P}(\underline{\alpha}).$$

Noting that $P(\overline{\alpha}) = 1$, and $P(\underline{\alpha}) = \hat{P}(\underline{\alpha}) = 0$, we have $E[\alpha] = \overline{\alpha} - \hat{P}(\overline{\alpha})$. Substituting into (A.2), $\Psi^*(F) = E[\alpha] + \hat{P}(F)$.

Lemma 1 Let $\tilde{\alpha}$ be the modal value of α . In a federal system, a state's preferences are single-peaked on $F \in [0, \overline{Z}]$ if and only if one of the following four conditions holds:

- (a) $\tilde{\alpha} \ge \alpha$ and $p(F) \le \frac{1}{\alpha\beta}$ for all $F > \alpha$;
- (b) $\tilde{\alpha} \ge \alpha$ and $p(\alpha) \ge \frac{1}{\alpha\beta}$;

(c) $\tilde{\alpha} < \alpha$; or

(d) Conditions (a) through (c) are violated, but $\overline{Z} < \check{F}_{\alpha}$, where \check{F}_{α} is the value of F corresponding to a local minimum in u(F) for $F > \alpha$.

Otherwise, state i has double-peaked preferences.

Proof. First, note that $\forall F < \alpha$, u(F) is strictly increasing and convex. Second, note that for $F > \alpha$, $\frac{\partial u}{\partial F} = \alpha + \alpha \beta P(F) - F$. At $F = \alpha$, this quantity is equal to $\alpha \beta P(\alpha)$, which is strictly positive. For sufficiently large $F > \alpha$, this quantity is strictly negative. Next, observe that $\frac{\partial^2 u}{\partial F^2} = \alpha \beta p(F) - 1$. Rearranging, this quantity is negative if and only if

$$p(F) < \frac{1}{\alpha\beta}.\tag{A.3}$$

(Necessity). Violation of (a), (b), and (c) imply $\tilde{\alpha} \ge \alpha$, $p(\alpha) < \frac{1}{\alpha\beta}$, and $p(\tilde{\alpha}) \ge \frac{1}{\alpha\beta}$; in this case, u(F) is first concave, then convex, then concave in F for $F > \alpha$. Given $\frac{\partial u}{\partial F}|_{F=\alpha} > 0$ and $\lim_{F\to\infty} \frac{\partial u}{\partial F} < 0$, this implies double-peakedness if F is not constrained as it is in (d). (Sufficiency).

- (a) If inequality (A.3) holds for all $F > \alpha$, then u(F) is strictly concave in that range. Given $\frac{\partial u}{\partial F}|_{F=\alpha} > 0$ and $\lim_{F\to\infty} \frac{\partial u}{\partial F} < 0$, this implies single-peakedness.
- (b) Log-concavity of $p(\cdot)$ implies unimodality. This condition therefore implies that u(F) is first convex, and then concave in F for $F > \alpha$. Given $\frac{\partial u}{\partial F}|_{F=\alpha} > 0$ and $\lim_{F\to\infty} \frac{\partial u}{\partial F} < 0$, this implies single-peakedness.
- (c) If $\tilde{\alpha} < \alpha$, then unimodality implies p(F) is either first convex and then concave in F for $F > \alpha$, or concave for all $F > \alpha$. In either case, given $\frac{\partial u}{\partial F}|_{F=\alpha} > 0$ and $\lim_{F\to\infty} \frac{\partial u}{\partial F} < 0$, this implies single-peakedness.
- (d) As noted above, when conditions (a) through (c) do not hold but (d) does, singlepeakedness is established by construction.

Proof of Proposition 1

From equation (2),

$$\frac{\partial u(F;\alpha,\beta)}{\partial F} = \begin{cases} \alpha\beta P(F) \text{ if } F < \alpha\\ \alpha - F + \alpha\beta P(F) \text{ otherwise.} \end{cases}$$
(A.4)

The statement in the proposition requires that

$$-\left.\frac{\partial u}{\partial F}\right|_{F=\hat{F}_{\alpha}-\Delta} > \left.\frac{\partial u}{\partial F}\right|_{F=\hat{F}_{\alpha}+\Delta} \tag{A.5}$$

for Δ sufficiently large. For sufficiently large Δ , $\frac{\partial u}{\partial F}$ evaluated at $\hat{F}_{\alpha} - \Delta$ is given by the first line, and $\frac{\partial u}{\partial F}$ evaluated at $\hat{F}_{\alpha} + \Delta$ by the second line, of (A.4). Substituting, (A.5) is equivalent to

$$-\alpha\beta P(\hat{F}_{\alpha} - \Delta) > \alpha - (\hat{F}_{\alpha} + \Delta) + \alpha\beta P(\hat{F}_{\alpha} + \Delta).$$

From the first order condition for an interior optimum, $\hat{F}_{\alpha} = \alpha + \alpha \beta P(\hat{F}_{\alpha})$. Substituting and rearranging yields

$$\Delta > \alpha \beta \left(P(\hat{F}_{\alpha} - \Delta) + P(\hat{F}_{\alpha} + \Delta) - P(\hat{F}_{\alpha}) \right).$$

The right side of this inequality is bounded between 0 and $\alpha\beta$. Thus for sufficiently large Δ the inequality holds.

Proof of Proposition 2

Under unitary government, a state's first order condition is given by $\hat{F}^{uni}_{\alpha} = \alpha(1+\beta)$, while under federalism it is given by $\hat{F}^{fed}_{\alpha} = \alpha(1+\beta P(\hat{F}^{fed}_{\alpha}))$. It is immediate that the first value is weakly higher than the second, and strictly if $P(\hat{F}^{fed}_{\alpha}) < 1$ (i.e., $\hat{F}^{fed}_{\alpha} < \overline{\alpha}$).

Proof of Proposition 3

There are two cases to consider. First, suppose $\hat{F}_{\alpha_L}^{fed}$ is effectively federal, and α_H is sufficiently high that $\hat{F}_{\alpha_H}^{fed}$ is effectively centralized. Then $\hat{F}_{\alpha_H}^{fed} = \hat{F}_{\alpha_H}^{uni}$ and, by Proposition 2, $\hat{F}_{\alpha_L}^{fed} < \hat{F}_{\alpha_L}^{uni}$. Therefore $\hat{F}_{\alpha_H}^{fed} - \hat{F}_{\alpha_L}^{fed} > \hat{F}_{\alpha_H}^{uni} - \hat{F}_{\alpha_L}^{uni}$.

Second, suppose both $\hat{F}_{\alpha_H}^{fed}$ and $\hat{F}_{\alpha_L}^{fed}$ are effectively federal. Then from the first order conditions for \hat{F}_{α}^{fed} and \hat{F}_{α}^{uni} , polarization under federalism is equal to $\alpha_H(1 + \beta P(\hat{F}_{\alpha_H}^{fed})) - \alpha_L(1 + \beta P(\hat{F}_{\alpha_L}^{fed}))$ and under unitary government is $(\alpha_H - \alpha_L)(1 + \beta)$. Comparing these expressions yields the necessary and sufficient condition given in the Proposition.

Proof of Proposition 4

Let $A(F; \beta, P(\cdot)) \equiv \frac{F}{1+\beta P(F)}$ denote the value of α that would yield F as an ideal point. From the expressions for states' marginal utilities in (A.4),

$$mRP^{-}(F;\beta,P(\cdot)) \equiv \int_{\underline{\alpha}}^{A(F;\cdot)} (F - \alpha(1 + \beta P(F)))p(\alpha)d\alpha \quad \text{and} \\ mRP^{+}(F;\beta,P(\cdot)) \equiv \int_{A(F;\cdot)}^{F} (\alpha(1 + \beta P(F)) - F)p(\alpha)d\alpha + \beta P(F) \int_{F}^{\overline{\alpha}} \alpha p(\alpha)d\alpha \\ .$$
(A.6)

Substituting for A(F), integrating by parts (see derivation of $\Psi^*(\cdot)$ above for details) and rearranging yields

$$mRP^{-}(F;\beta,P(\cdot)) = (1+\beta P(F))\hat{P}(A(F;\cdot)) \quad \text{and}$$

$$mRP^{+}(F;\beta,P(\cdot)) = (1+\beta P(F))\hat{P}(A(F;\cdot)) + \beta P(F)E[\alpha] - \hat{P}(F).$$
(A.7)

1.
$$\frac{\partial mRP^{-}}{\partial F} = (1 + \beta P(F))P(A(F))\frac{\partial A(F)}{\partial F} + \beta p(F)\hat{P}(A(F)) > 0$$
 for all $F > \underline{\alpha}$ (noting that

 $\frac{\partial A(F)}{\partial F} > 0$), and $\frac{\partial mRP^+}{\partial F} = \frac{\partial mRP^-}{\partial F} + \beta p(F)E[\alpha] - P(F).$

Having established $\frac{\partial mRP^-}{\partial F} > 0$, it is sufficient to demonstrate that $\beta p(F)E[\alpha] - P(F) > 0$ for sufficiently small values of F. Rearranging, the sufficient condition is $\frac{p(F)}{P(F)} > (\beta E[\alpha])^{-1}$. From the definition of log-concavity, $\frac{p(F)}{P(F)}$ is strictly decreasing. Further, $\lim_{F\to\underline{\alpha}\downarrow}\frac{p(F)}{P(F)} = \infty$. Therefore the condition holds for sufficiently small values of F.

2. We proceed by showing that there exists an <u>F</u> such that the result holds for F = F^{*}. Comparing the expressions from (A.7), mRP⁻ > mRP⁺ if and only if δ(F) > βE[α] (where, as above, δ(F) = ^{p̂(F)}/_{P(F)}). From the proof of Proposition ??, at equality this statement defines F^{*} implicitly. Via monotonicity of δ(·), therefore, mRP⁻ > mRP⁺ if and only if F > F^{*}. Suppose F > F^{*}, so mRP = mRP⁻. As mRP⁻ is strictly increasing, it is minimized at mRP⁻(F^{*}) > 0. Suppose F < F^{*}, so mRP = mRP⁺. From part (1), mRP⁺ is increasing for sufficiently small values of F. From the second line of (A.7), RP⁺(α) = 0. As mRP⁺ is therefore increasing from zero, there must be some <u>F</u> such that for all F < <u>F</u>, mRP⁺(F) < mRP⁻(F^{*}).

Proof of Proposition 5

Let $\tilde{A}(F;\beta) \equiv \frac{F}{1+\beta}$ denote the value of α that would yield F as an ideal point in a unitary system. Then

$$mRP_{uni}^{-}(F;\beta,P(\cdot)) = \int_{\underline{\alpha}}^{\tilde{A}(F;\cdot)} (F - \alpha(1+\beta))p(\alpha)d\alpha.$$
(A.8)

Comparing this expression to the first line of (A.6), it is immediate that both the upper bound of integration, and the integrand, of the expression for $mRP_{uni}^{-}(F)$ are smaller than for their counterparts under effective federalism. Therefore, mRP^{-} is strictly higher under federalism than in a unitary system for any F that is effectively federal under the former. The corresponding expression for mRP^+ in a unitary system is

$$mRP_{uni}^{+}(F;\beta,P(\cdot)) = \int_{\tilde{A}(F;\cdot)}^{\overline{\alpha}} (\alpha(1+\beta) - F)p(\alpha)d\alpha.$$

Noting that $\tilde{A}(F; \cdot) < A(F; \cdot)$ under effective federalism, mRP_{uni}^+ can be expressed as

$$\int_{\tilde{A}(F;\cdot)}^{A(F;\cdot)} (\alpha(1+\beta)-F)p(\alpha)d\alpha + \int_{A(F;\cdot)}^{F} (\alpha(1+\beta)-F)p(\alpha)d\alpha + \int_{F}^{\overline{\alpha}} (\alpha(1+\beta)-F)p(\alpha)d\alpha.$$

Comparing this expression to the second line of (A.6), mRP^+ is strictly greater under the unitary than federal institutions if and only if

$$\int_{\tilde{A}(F;\cdot)}^{A(F;\cdot)} (\alpha(1+\beta)-F)p(\alpha)d\alpha + \int_{A(F;\cdot)}^{F} \alpha\beta(1-P(F))p(\alpha)d\alpha + \int_{F}^{\overline{\alpha}} (\alpha(1+\beta(1-P(F)))-F)p(\alpha)d\alpha > 0.$$

The first integral is strictly positive. Rearranging terms, the second and third integrals may be expressed as

$$\int_{A(F;\cdot)}^{\overline{\alpha}} \alpha \beta (1 - P(F)) p(\alpha) d\alpha + \int_{F}^{\overline{\alpha}} (\alpha - F) p(\alpha) d\alpha$$

Each of these terms is strictly positive under effective federalism. Therefore the inequality holds. \blacksquare

Proof of Remark 1

We proceed by conjecturing that the equilibrium national policy F^* is effectively federal, and then establishing the condition in which this is consistent with equilibrium play. From the text, $S_L^* = 0$ and $S_H^* = \alpha_H - F^*$. Substituting into the states' utility functions and differentiating with respect to c_H^{fed} and c_L^{fed} respectively yields the first-order conditions:

$$\beta \alpha_H - \nu c_H^{fed} = 0$$

$$F^{\circ} - \alpha_L + c_H^{fed} - (1 + \nu) c_L^{fed} = 0$$

Solving this system of equations yields

$$c_H^{*fed} = \frac{\beta \alpha_H}{\nu}; \quad c_L^{*fed} = \frac{\beta \alpha_H + \nu (F^\circ - \alpha_L)}{\nu (\nu + 1)}.$$
 (A.9)

(Second-order conditions establish trivially that (c_H^{*fed}, c_L^{*fed}) is a global maximum.) c_H^{*fed} is independent of F° , while c_L^{*fed} is strictly increasing in F° . Therefore total deadweight loss, $\frac{\nu}{2}((c_H^{*fed})^2 + (c_L^{*fed})^2)$, is strictly increasing in F° .

If $F^* < \alpha_H$, it is is effectively federal. In equilibrium, $F^* = F^\circ + c_H^{*fed} - c_L^{*fed}$. Substituting from (A.9) and simplifying, this condition holds for all effectively federal status quo policies $(F^\circ < \alpha_H)$ if and only if

$$\beta < \frac{\alpha_H - \alpha_L}{\alpha_H},\tag{A.10}$$

establishing the initial conjecture.

Proof of Remark 2

First, note that *L*'s ideal policy under unitary governance would be effectively federal under federalism if and only if $\alpha_L(1+\beta) < \alpha_H$, or $\beta < \frac{\alpha_H - \alpha_L}{\alpha_L}$, a condition that is always satisfied if (A.10) is met.

Substituting into the states' utility functions under unitary governance and differentiating with respect to c_H^{uni} and c_L^{uni} respectively yields the first-order conditions:

$$\alpha_H(\beta + 1) - F^{\circ} - (1 + \nu)c_H^{uni} + c_L^{uni} = 0$$
$$-\alpha_L(\beta + 1) + F^{\circ} + c_H^{uni} - (1 + \nu)c_L^{uni} = 0.$$

Solving this system of equations yields

$$c_{H}^{*uni} = \frac{(\beta+1)((\nu+1)\alpha_{H} - \alpha_{L}) - \nu F^{\circ}}{\nu(\nu+2)}; \quad c_{L}^{*uni} = \frac{(\beta+1)(\alpha_{H} - (\nu+1)\alpha_{L}) + \nu F^{\circ}}{\nu(\nu+2)} \quad (A.11)$$

(Second-order conditions establish trivially that (c_H^{*uni}, c_L^{*uni}) is a global maximum.)

For a given status quo policy F° , total deadweight loss from conflict under federalism exceeds that under unitary governance if and only if

$$(c_L^{*fed})^2 + (c_H^{*fed})^2 > (c_L^{*uni})^2 + (c_H^{*uni})^2,$$
 (A.12)

which is equivalent to

$$(c_L^{*fed} - c_L^{*uni})(c_L^{*fed} + c_L^{*uni}) > (c_H^{*uni} - c_H^{*fed})(c_H^{*fed} + c_H^{*uni})$$
(A.13)

For this inequality to hold, it is sufficient that both $c_L^{*fed} > c_L^{*uni}$ and $c_H^{*fed} > c_H^{*uni}$. Evaluated at $F^{\circ} = \alpha_H$, these conditions are equivalent to

$$(\beta\nu^2 + 2\beta\nu + \beta + 1)\alpha_L + (\beta - 1)\alpha_H > 0 \text{ and}$$
$$(\beta + 1)\alpha_L + (\beta - 1)\alpha_H > 0.$$

Note that the first condition is implied by the second, which holds if and only if

$$\beta > \frac{\alpha_H - \alpha_L}{\alpha_H + \alpha_L} \tag{A.14}$$

By continuity, this condition will be met in an open ball around $F^{\circ} = \alpha_H$. The right side of (A.14) is strictly less than the right side of (A.10). Thus $\beta \in (\frac{\alpha_H - \alpha_L}{\alpha_H + \alpha_L}, \frac{\alpha_H - \alpha_L}{\alpha_H})$ is sufficient for the Proposition to hold.

2 Additional Analysis Not Presented in the Main Text

Lemma 2 (Majority Voting Equilibrium) States' induced preferences over federal policies are single-crossing; thus, under simple majority rule, \hat{F}_{α_m} , the most preferred national policy of the state with the median preference parameter, $\alpha = \alpha_m$, is an equilibrium.

Proof of Lemma 2

Differentiating (2) with respect to F and again with respect to α yields

$$\frac{\partial^2 u(F;\alpha,\cdot)}{\partial F \partial \alpha} = \begin{cases} \beta P(F) \text{ if } F < \alpha \\ 1 + \beta P(F) \text{ otherwise.} \end{cases}$$
(A.15)

Both the first and second lines of (A.15) are strictly positive, implying increasing differences, which are sufficient for single-crossing. Given single-crossing preferences, a majority rule voting equilibrium exists, and the median state will be decisive (Gans and Smart 1996).

Proposition 6 (Equilibrium Versus Efficient National Policymaking) Suppose $p(\cdot)$ is symmetric and \hat{F}_{α_m} is effectively federal. Then:

- 1. The national policy arrived at under simple majority rule is strictly higher than the aggregate welfare-maximizing national policy; and
- 2. If the bargaining protocol B is supermajoritarian, then the aggregate welfare-maximizing national policy is either below or within B's associated gridlock interval.

Proof of Proposition 6

Integrating (2) over $p(\alpha)$, aggregate welfare is given by

$$W \equiv \int_{\underline{\alpha}}^{\overline{\alpha}} \alpha \beta(E[\alpha] + \hat{P}(F))p(\alpha)d\alpha + \int_{\underline{\alpha}}^{F} \left(\alpha F - \frac{F^2}{2}\right)p(\alpha)d\alpha + \int_{F}^{\overline{\alpha}} \frac{\alpha^2}{2}p(\alpha)d\alpha.$$
(A.16)

Via the Leibniz integral rule, marginal aggregate welfare is

$$\frac{\partial W}{\partial F} = (\beta E[\alpha] - \delta(F))P(F), \qquad (A.17)$$

where where $\delta(F) \equiv \frac{\hat{P}(F)}{P(F)} = F - E[\alpha | \alpha < F]$ is the mean advantage over inferiors function from reliability theory. Any $F < \underline{\alpha}$ is Pareto dominated. Lemma 1 of Bagnoli and Bergstrom (2005) shows for log-concave $p(\cdot)$ that $\delta(F)$ is strictly increasing in F (from zero at $F = \underline{\alpha}$). Therefore F^* is unique and defined implicitly by the first order condition $\delta(F^*) = \beta E[\alpha]$ (or by the corner \overline{Z} when $\delta(\overline{Z}) < \beta E[\alpha]$).

1. Under symmetry, $E[\alpha] = \alpha_m$. Therefore, from above, $\delta(F^*) = \beta \alpha_m$. Since $\delta(\cdot)$ is monotone increasing for log-concave densities, its inverse exists and is also monotone increasing. Therefore $F^* = \delta^{-1}(\beta \alpha_m)$, and $F^* < \hat{F}_{\alpha_m}$ if and only if

$$\delta(\hat{F}_{\alpha_m}) > \beta \alpha_m. \tag{A.18}$$

Recalling that $\delta(F) = \frac{\hat{P}(F)}{P(F)}$, substituting into (A.18) and rearranging yields

$$\hat{P}(\hat{F}_{\alpha_m}) > \alpha_m \beta P(\hat{F}_{\alpha_m}). \tag{A.19}$$

 \hat{F}_{α_m} is defined implicitly by the first order condition $\alpha_m \beta P(\hat{F}_{\alpha_m}) = \hat{F}_{\alpha_m} - \alpha_m$. Substituting into (A.19) yields the condition

$$\hat{P}(\hat{F}_{\alpha_m}) > \hat{F}_{\alpha_m} - \alpha_m. \tag{A.20}$$

Note that at $\beta = 0$, $\hat{F}_{\alpha_m} = \alpha_m$ and (A.20) holds trivially. Recall from the derivation of $\Psi^*(F)$ above (and given symmetry) that $\alpha_m = \overline{\alpha} - \hat{P}(\overline{\alpha})$, or $\hat{P}(\overline{\alpha}) = \overline{\alpha} - \alpha_m$. Also note that for all $\hat{F}_{\alpha_m} > \overline{\alpha}$, $\frac{\partial \hat{P}(\hat{F}_{\alpha_m})}{\partial \hat{F}_{\alpha_m}} = P(\hat{F}_{\alpha_m}) = 1$. Therefore for all $\hat{F}_{\alpha_m} \ge \overline{\alpha}$, (A.20) holds at equality, which in turn implies $\hat{F}_{\alpha_m} = F^*$.

Next, assume $\hat{F}_{\alpha_m} < \overline{\alpha}$. Then the derivative of the left side of (A.20), $P(\hat{F}_{\alpha_m})$, is strictly less than one, while the derivative of the right side is equal to one. Suppose there exists some $\hat{F}'_{\alpha_m} < \overline{\alpha}$ such that (A.20) does not hold. Given convexity of $\hat{P}(\cdot)$, $\hat{P}(\alpha_m) > 0$, $\hat{F}_{\alpha_m} \ge \alpha_m$, and $\hat{P}(\overline{\alpha}) = \overline{\alpha} - \alpha_m$, it must then be the case that there exists some $\hat{F}''_{\alpha_m} \in (\hat{F}'_{\alpha_m}, \overline{\alpha}]$ such that $\frac{\partial \hat{P}}{\partial \hat{F}_{\alpha_m}} \Big|_{\hat{F}_{\alpha_m} = \hat{F}''_{\alpha_m}} > 1$, a contradiction. Therefore (A.20) holds for all $\hat{F}_{\alpha_m} < \overline{\alpha}$. 2. Follows immediately from part 1 and the assumption that \hat{F}_{α_m} lies within the gridlock interval.

References

Edlin, Aaron S., and Chris Shannon. 1998. "Strict Monotonicity in Comparative Statics." Journal of Economic Theory 81: 201-219.

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