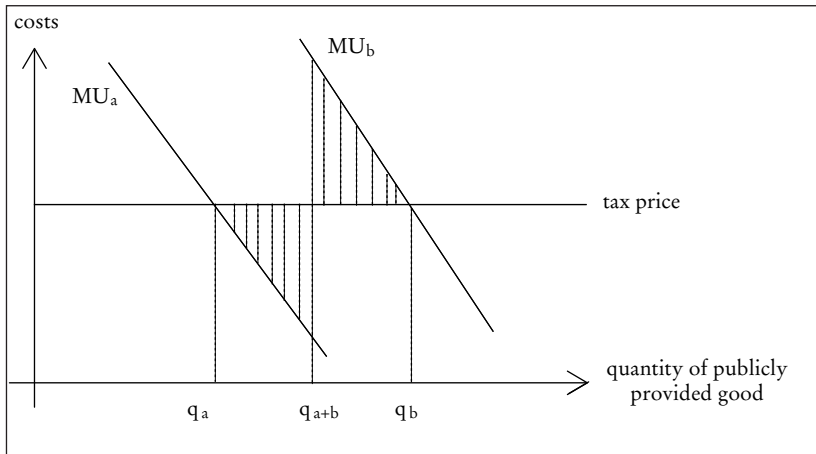


Figure 4.3: Federalism and preference adequacy



they would clearly provide these optimal quantities. In the case of a central decision-making authority, where it is only possible to provide a certain quantity of the good, A and B will arrive at a quantity between q_a and q_b , say q_{a+b} . q_{a+b} is a «compromise» which leaves both individual A and B, with a welfare loss indicated by the lined area. Note that economies of scale are not existent in the model underlying Figure 4.3. As a consequence, federalism is one possible way for larger countries to comply with different non-PA curves within the population and, hence, to diminish preference distances.

4.2.1.3 Other possible criteria

Besides competition, which has already been analyzed in detail in Section 4.1.2, there are two other noteworthy concepts that should be enumerated and explained in brief:

- The extent of institutional congruence is an institutional yardstick with which different organizational units of public good provision are compared. It is intimately related to the concept of fiscal equivalence. Speaking of institutional congruence means that decision