The vertical distribution of governmental authority is rapidly changing around the world. Power and revenue are shifting downward (to state and local governments) and upward (to supra-national bodies like the European Union) at the same time. Moreover, the number of independent countries in the world is rapidly increasing. This course examines theories and empirical studies that explore the causes and consequences of these trends. In so doing, it surveys one of the most vibrant and exciting research areas at the intersection of economics and political science.

Until very recently, most of the systematic theoretical work on multi-tiered systems of government came from the welfare economics and public choice traditions. We take these abstract normative theories as our starting point, but we quickly move beyond them by introducing institutions and politics. In addition to more familiar normative questions, we will examine a variety of positive questions that are at the forefront of the research agenda in political science. In other words, we are interested not only in learning about how multi-tiered governments should work, but also how they actually work in diverse settings around the world. Each week our discussions will examine both the theory and practice of federalism, with applications in developed federations like the United States and Canada, developing federations like Argentina, Brazil, and India, countries in transition like South Africa and Russia, and one very important nascent federation—the European Union. Moreover, we will also examine multi-tiered systems like Italy and the UK that are not formally federal but moving in that direction.

Weekly participation in discussion is mandatory [25% of course grade]. Students will write a short (5-10 page) paper dealing with the topic for a selected meeting [15% of course grade]. Students will present the ideas expressed in the paper, generate discussion questions, and help lead the seminar on the week they choose [10% of course grade]. The most important assignment is an analytical paper (20-25 pages), due at the end of the semester [50% course grade]. Students will present a preliminary version of the paper in class.

The readings will be available in a pair of binders on reserve at the Dewey Library. The Chhibber and Kollman book manuscript will be in a separate binder. The only book to purchase is Paul Krugman, Geography and Trade (Cambridge, MA: MIT Press, 1993), available from Amazon or directly through MIT Press.

Sept. 5:  

Introduction to the Course


Sept. 12:  

Fiscal Federalism: The Optimal Assignment of Governmental Authority

We begin with the normative economic theory of federalism, reviewing some of the basic concepts of fiscal federalism theory. Why should state or local governments provide governmental goods and services? In an ideal world, which ones would they provide, and which tasks would be reserved for the central government? Under what conditions
might decentralization lead to improvements in accountability and governance? To what extent does the real world resemble the world of welfare economics? Which countries are most decentralized and why? Which countries get it right? Which ones get it wrong and why? Is the European Union on the right track?


Sept. 19: Positive theories of integration and decentralization

While the European Union and other free trade alliances are coming together, some countries are falling apart (e.g. Czechoslovakia), or threatening to do so (e.g., Canada and Russia). Why do countries fall apart? What are the sources of pressure for fiscal and political (de)centralization? What roles do free trade and economic integration play? Are theories of secession a good starting point for understanding the political economy of decentralization?


Sept 26: Why Come Together? Toward a Positive Political Theory of Federalism (First Hour)
Why do federations form? Did federations as diverse as the United States, Argentina, India, and the European Union form for similar reasons? If federations form to provide collective goods, what are they? If federalism starts with a “bargain” or “contract,” what are its key characteristics?


- Iarzczower, Matias, Sebastian Saiegh and Mariano Tommasi, “Coming Together: The Industrial Organization of Federalism,” manuscript, Universidad de San Andres.


**Federalism and Representation (Second Hour)**

Federal bargains often lead to distinctive institutional characteristics. Above all, states and provinces play a role in federal policy-making, and federal bargains affect the legislative process, the relations between the executive and legislature, and the role of the judiciary. In spite of these commonalities, there is also a great deal of diversity among federations in the representation of states and the structure of intergovernmental relations.


Recommended:


**Mobility and Inter-Jurisdictional Competition**

The ability of individuals and firms to “vote with their feet” by moving from one jurisdiction to another has profound implications for governance and accountability. What are the most important implications of inter-governmental competition? Does it make government more efficient? More responsive to citizens? Does it favor certain interest groups over others? What are the implications for redistribution and equality? What are the most important implications for Tiebout’s model? What are the testable implications of the papers by Hayek and Buchanan? This week only begins a discussion of mobility and competition that will extend throughout the semester.


Oct. 10:  

*Federalism, Economic Growth, and Governance*

Arguments about mobility and competition have led to hypotheses linking federalism to (1) the growth of the private economy, (2) the contraction of the public economy (especially the welfare state), and (3) better governance. This week we address these arguments and ask: Does federalism preserve markets and spur economic growth? Does federalism restrict the growth of the public sector? Is federalism associated with good governance? Or are the answers to these questions conditional on other more important factors?

*Economic development:*


*The size of government*


*The welfare state*


*Corruption and good governance*


Oct. 17:  

*Federalism, interregional inequality, and economic development*

*Convergence*

**Divergence**


SKIM the following for the main arguments and empirical findings:


**Interpersonal inequality**

- Linz, Juan and Alfred Stepan, “Inequality Inducing and Inequality Reducing Federalism,” paper presented at the World Congress of the International Political Science Association, August 1-5, 2000, Quebec City, Canada.


Oct. 24:  

**Federalism and Political Parties**

William Riker argues that the nature of incentives within political parties shapes the distribution of authority within federations and the stability of the basic federal bargain. Pradeep Chhibber and Ken Kollman turn the causal arrow in the opposite direction, arguing that the distribution of authority affects the organization of parties. Is there a way to sort out this endogeneity problem?


Oct. 31:  

**The Problem of Collective Goods in a Federal System**

Federations may form to provide their members with collective goods, but in many cases, federal institutions seem to allow private interests to win out over the “public interest.”
Strategic gaming and bargaining between governments often lead to collectively sub-optimal outcomes. What are the roots of this problem? What are its most serious manifestations? How can it be overcome?


Nov. 7: No class, Prof. Rodden out of town.


In the first part of the course we discussed how intergovernmental transfers would be devised and distributed in an ideal world where governments are always benevolent. In the real world, however, intergovernmental transfers have much more to do with politics, but we know very little about the comparative political economy of intergovernmental grants. The central question of this week is one of the basic questions of political science: Who gets what, when, and how much? How is this shaped by the institutions of representation? How do federal-level distributive politics games shape the incentives of state-level officials?


Federalism and other forms of multi-tiered government may create a problem for democratic accountability. Pundits have identified a similar crisis of “democratic deficit” in such diverse settings as Canada, Australia, and the European Union. How can citizens hold politicians accountable for their actions in a multi-tiered political system? What role do institutions play?


Nov. 21:  
*The Problem of Accountability in Multi-Tiered Political Systems*

Nov. 28:  No class, Thanksgiving break.

Dec. 5:  Student presentations.