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, introducing institutions and politics to the picture. 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 and Brazil, countries in transition like South Africa and Russia, and one very important nascent federation—the European Union.

Weekly participation in discussion is mandatory [25% of course grade]. Students will write a short (3-5 page) paper in response to the readings for one week [25% of course grade], and present their ideas in an oral presentation [10% of course grade]. The most important assignment is an analytical paper (15-25 pages), due on December 22 [40% of course grade].

Sept. 7:  
Introduction to the Course

I. Normative Theories of Federalism and Decentralization

Sept. 14: 
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?


Sept. 21: 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? This week only begins a discussion of mobility and competition that will extend throughout the semester.


Sept. 28: Federalism, Economic Growth, and the Size of Government

Arguments about mobility and competition have led to two distinct arguments linking federalism to (1) the growth of the private economy and (2) the contraction of the public economy. This week we address both of these arguments and ask: Does federalism preserve markets and spur economic growth? Does federalism restrict the growth of the public sector? Or are the answers to these questions conditional on other more important factors?


Oct 5: No Meeting

Oct. 12: *Federalism and Political Theory*

Now that we have addressed normative economic theories of federalism, we turn our attention to political theory. For an introduction to the subject of political federalism, we turn to the concepts and debates that were addressed by Alexander Hamilton, John Jay, and James Madison in the *The Federalist*.


II. Positive Political Theories of Federalism


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.


Oct. 26: *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. 2:  
Federalism and Stability: The Role of Political Parties

This week addresses the maintenance of a stable federal system. Are federations unstable by design? What accounts for cross-national differences in stability? Why do some initially-decentralized federations stay that way (the United States, Canada, Switzerland), while others centralize (Argentina, Mexico)? What are the most important conditions under which federations can renegotiate their underlying “bargains”? Why do some federations—perhaps most notably Canada—consistently fail to do so? Can federalism succeed in South Africa and Russia? In order to address these questions, we will pay special attention to the role of political parties.


- Inman, Robert. “Fiscal Federalism in Developing Countries: Lessons Learned from Working in South Africa,” APSA-CP 11, 1: 11-16.


Nov. 9:  
Federalism and Representation

Many of the problems of federalism that we have addressed thus far—instability, underprovision of public goods, and soft budget constraints, for example—may be shaped by the way in which subnational governments (and their citizens) are represented in the central government. How do different federal institutional shape the agency relationship between citizens and government? Which structures are most appropriate in which contexts? Some specific issues: What kind of representation structure is likely to work best in the European Union? Should Canada reform its Senate?


- Re-read the Stepan article from October 19.

**Nov. 16:**

*Distributive Politics in Decentralized Systems: Towards a Positive Theory of Fiscal Federalism*

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?


**Nov. 30:**

*The Problem of Accountability in Multi-Tiered Political Systems*
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?


- Scharpf, Fritz. “The Joint-Decision Trap: Lessons from German Federalism and
  European Integration,” *Public Administration* 66, 239-278.

- Kincaid, John. “Confederal Federalism and Citizen Representation in the European
  Union,” *West European Politics* 22, 2: p. 34-58.

  Accountability in the American States,” *American Political Science Review* 92, 4:
  759-74.

- Besley, Timothy and Anne Case, “Incumbent Behavior: Vote-Seeking, Tax-Setting,

- Tommasi, Mariano and Federico Weinschelbaum, “A Principal-Agent Building
  block for the Study of Decentralization and Integration,” Unpublished paper,
  Universidad de San Andres (recommended).

Dec. 7: **Why Stay Together in a Global Economy? Theories of Secession 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).
Why do countries fall apart? What are the sources of pressure for fiscal and political
(de)centralization? What role do free trade and economic integration play? Should
Scotland remain in the United Kingdom?

- Alesina, Alberto and Enrico Spolaore, “On the Number and Size of Nations,”


- Fearon, James and Pieter van Houten. 1998. “The Politicization of Cultural and
  Economic Difference: A Return to the Theory of Regional Autonomy Movements,”
  Paper prepared for the Annual Meeting of the American Political Science
  Association.

- Garrett, Geoffrey and Jonathan Rodden. 2000. “Globalization and
  Decentralization,” Paper prepared for the Annual Meeting of the Midwest Political
  Science Association.