

**FISCAL FEDERALISM AND THE POLITICAL ECONOMY OF
DECENTRALISATION**
MODUL 2: DECENTRALISED GOVERNANCE AND FEDERALISM
(2 credits)

Lecturer: Attila Fölsz folsza@ceu.hu

Lectures and seminars: Tuesday and Thursday 9.00 – 10.40 (weeks 7-12 of the semester)

Office hours: *Tuesday 10.40 -11.40, Thursday 10.40 – 13.00*

Course description and objective:

The aim of this course is to acquaint students with the major problems and practices of vertical division of government authority within states.

Power of nation states is challenged simultaneously by supra- and sub-national bodies in the form of integration and regionalization/federalization. This course deals with the latter issue, namely how authority is shared between national and subnational levels of government.

The course analyzes from a comparative perspective how federal arrangements actually work in the world, with a special emphasis on Central and Eastern Europe.

Learning outcomes:

Students will learn how to undertake empirical analyses of multi-level governing systems. They will get acquainted with recent worldwide developments in federal or decentralized governance.

Teaching format:

Usually 2 classes are devoted to each topic. The first are interactive lectures while the seconds are rather seminars.

Requirements:

- Students are required to attend classes regularly and to participate actively in course discussions.
- Students are expected to formulate comments and questions about the literature. These not more than half page long comments and questions will serve as basis for seminar discussions, and are to be submitted in written form before the seminars.
- Students are expected to make in-class presentations on the system of decentralization in their home countries.
- In the middle and the end of the course students write 2 short (40 minutes) tests that only cover the topics of the preceding weeks.
- The course ends with an in-class closed-book final essay that covers the material of the entire course.

Assessment:

| | |
|---------------------------------|------|
| 2 short tests: | 30 % |
| In-class final essay: | 40 % |
| Written questions and comments: | 10 % |
| In-class presentation | 10 % |
| In-class participation | 10 % |

1. Federalism and governance

Theories and empirical findings on the qualitative and quantitative aspects of government performance in centralized and decentralized systems

- Treisman, Daniel(2002): Decentralization and the Quality of Government . Unpublished Paper, Department of Political Science, University of California, Los Angeles.

<http://www.sscnet.ucla.edu/polisci/faculty/treisman/DecandGovt.pdf>

- Rodden, Jonathan (2003) “Reviving Leviathan: Fiscal Federalism and the Growth of Government. *International Organization*. Vopl 57. No 4, November 2003
- **Suggested: reading:**
- Treisman, Daniel. 1999. “Political Decentralization and Economic Reform: A Game-Theoretic Analysis,” *American Journal of Political Science* 43, 4: 488-517.
- Treisman, Daniel, “Decentralization and Inflation: Commitment, Collective Action, or Continuity?” *American Political Science Review* 94, 4 (Dec. 2000): 837-857.
- de Mello, L. –Barenstein, M. [2001]: Fiscal Decentralization and Governance: a Cross-Country Analysis. IMF Working Paper, WP/01/71 <http://www.imf.org/external/pubs/ft/wp/2001/wp0171.pdf>
- Tanzi, Vito (2001): Pitfalls on the Road to Fiscal Decentralization. Economic Reform Project Working Paper. Carnegie Endowment for International Peace
- Prudhomme, Remy. 1995. "The dangers of decentralization." No 1252, Policy Research Working Paper Series from The World Bank

2. Decentralization, representation and accountability

How does federalism or multi-tiered government systems affect electoral accountability? The costs and benefits of decentralization from the point of view of accountability

- Seabright, P. (1996), "Accountability and Decentralization in Government: an Incomplete Contracts Model", *European Economic Review* 40, 61-91.
- Hindriks, J and B. Lockwood (2005) "Decentralization and Electoral Accountability: Incentives, Separation, and Voter Welfare", (Warwick Working Paper in Economics 717
- **Suggested: reading:**
- Persson, T. and G. Tabellini (2000), *Political Economics: Explaining Economic Policy*, (MIT Press, Cambridge, MA.), Chapter 9.
- Scharpf, Fritz. “The Joint-Decision Trap: Lessons from German Federalism and European Integration,” *Public Administration* 66, 239-278
- Remmer, Karen and Francois Gelineau. 2002. “Subnational Economic Voting : Electoral Choice in Argentina, 1983-99. Unpublished paper, Duke University

3. Federalism and economic performance

Hypotheses and empirical findings on the impact of decentralization on major indicators of macroeconomic performance, like growth, inflation, fiscal equilibrium, etc

- Weingast, Barry. 1995. “The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Growth,” *Journal of Law, Economics, and Organization* 11: 1-31.
- Rodden, Jonathan and Erik Wibbels Beyond the Fiction of Federalism: Macroeconomic Management in Multi-tiered Systems. *World Politics* 54.3 (July 2002).
- **Suggested: reading:**
- Feld Lars P., Horst Zimmermann and Thomas Döring (2004): Federalism, Decentralization, and Economic Growth. No 200430, Working Papers Philipps-Universität Marburg, Department of Economics (Volkswirtschaftliche Abteilung)
- Rodden, Jonathan and Susan Rose-Ackerman. (1997). Does Federalism Preserve Markets? *Virginia Law Review* 83, 7: 1521-72.)
- Davoodi, Hamid and Heng-fu Zou. 1998. “Fiscal Decentralization and Economic Growth: A Cross-Country Study,” *Journal of Urban Economics* 43: 244-257.
- Rodden, Jonathan. 2000. “The Dilemma of Fiscal Federalism: Hard and Soft Budget Constraints around the World.” Massachusetts Institute of Technology, Cambridge, Mass
- Matinez-vazquez, Jorge and Robert M. McNab (2005): Fiscal Decentralisation, Macrostability and Growth. ISP Working paper 05-06, Georgia State University
- Tanzi, Vito : Fiscal federalism and decentralization: a review of some efficiency and macroeconomic aspects - in: Annual World Bank Conference on Development Economics 1995, The World Bank 1996, pp.295-316

4. Globalization, integration and devolution

How does globalization affect decentralized fiscal systems? Does it rather lead to fiscal integration or devolution?

- Garrett, Geoffrey and Jonathan Rodden, “Globalization and Fiscal Decentralization,” in

Suggested: reading:

- Alesina, Alberto and Enrico Spolaore, "On the Number and Size of Nations," *Quarterly Journal of Economics* (November 1997).
- Arzaghi, Mohammad and Vernon Henderson. 2002. "Why Countries are Fiscally Decentralizing," working paper, Brown University.)
- Bolton, Patrick and Gerard Roland, "The Breakup of Nations: A Political Economy Analysis-," *Quarterly Journal of Economics* (November 1997).
http://www.gsb.columbia.edu/faculty/pbolton/PDFS/Breakup_Nations.pdf
- Ebel, Robert D. and Serdar Yilmaz (2002): *On the Measurement and Impact of Fiscal Decentralization*. Policy research Working Paper 2089, The World Bank, Washington DC

5. Fiscal federalism and the EU

Chances of a certain kind of fiscal unification in the European Union. Is there a spill-over from monetary union to fiscal union?

- Vila Maior, Paulo (2004): *Unveiling Fiscal Federalism in the European Union*. Unpublished paper. <http://www.fe.uc.pt/30years/papers/91.pdf>
- Inman, Robert and Daniel Rubinfeld (1992): *Fiscal federalism in Europe. Lessons from the United States experience*. *European Economic Review* 36. 654-660

Suggested: reading:

- Kletzer, Kenneth and Jürgen von Hagen. (2000): *Monetary Union and Fiscal Federalism*, ZEI Policy Working Paper B01, Center for European Integration Studies, Bonn
- Tondl, Gabriele (2000), "Fiscal Federalism and the Reality of the European Union Budget", in Crouch, Colin (Ed.), *After the Euro - Shaping Institutions for Governance in the Wake of European Monetary Union*, Oxford: Oxford University Press
- Person, Torsten, Gérard Roland and Guido Tabellini (1996), *The Theory of Fiscal Federalism: What Does It Mean for Europe?* Paper presented in the Conference "Quo Vadis Europe", Kiel
- Jørn Rattsø: *Fiscal federation or confederation in the European Union: The challenge of the common pool problem*, Norwegian University of Science and Technology, Trondheim. Manuscript
<http://www.svt.ntnu.no/iso/Jorn.Rattsø/Papers/jrffieurev.pdf>

6. Decentralization and transition

Decentralization and government reform in former socialist countries. Survey of issues and stylized facts.

- Shah, Anwar (2004): *Fiscal Decentralization in Developing and Transition Economies*. Policy Research Working Papers 3282. World Bank.
- **Suggested: reading:**
- Thiessen, Ulrich. (2005): *Fiscal Federalism: Normative Criteria for Evaluations, Developments in Selected OECD Countries, and Empirical Evidence from Russia*. Discussion Paper 518. Berlin: German Economic Institute for Economic Research.
- Dunn, Jonathan and Wetzel, Deborah. 2000. *Fiscal Decentralization in Former Socialist Economies - Progress and Prospects*. The World Bank.
<http://www1.worldbank.org/wbiep/decentralization/Courses/Budapest%204.10.00/wetzelECAwico.pdf>
- Norris, Era-Dabla and Wade Paul. 2002. *The Challenges of Fiscal Decentralization in Transition Countries*. IMF Working paper 103.
- Wetzel, Deborah (2001): *Decentralization in the Transition Countries: Challenges and the Road Ahead*. The World Bank <http://www1.worldbank.org/publicsector/civilservice/june2004seminar/wetzel.pdf>

Some useful internet resources:

- <http://www1.worldbank.org/publicsector/decentralization>
- <http://www1.worldbank.org/publicsector/LearningProgram/Decentralization.html>
- <http://isp-aysps.gsu.edu/papers/index.html>
- <http://www.brookings.edu/topics/federalism.aspx?page=3>