

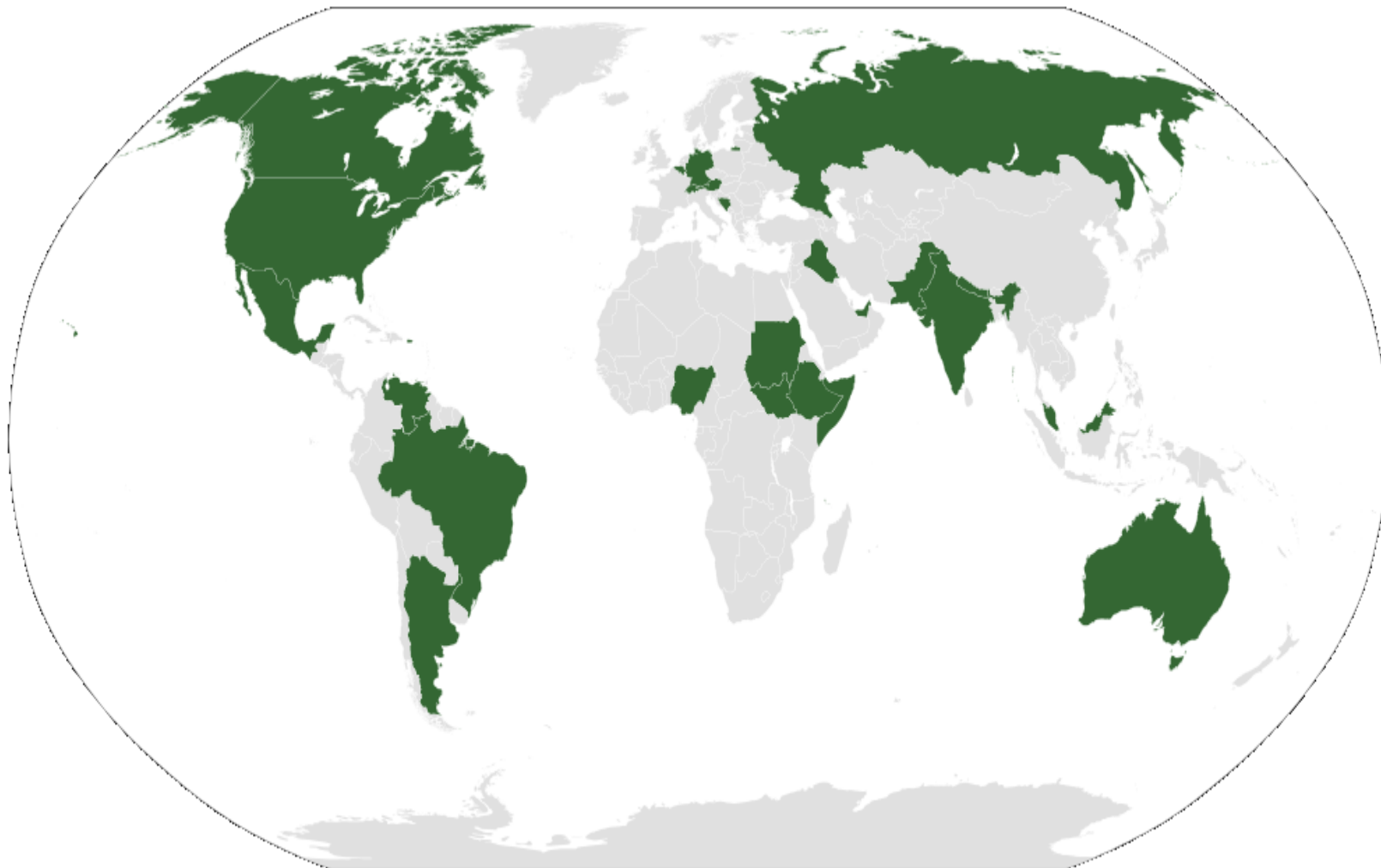
Federalism

Lesson 5

What is federalism?

- Sovereignty shared between center and regions
 - Center has final say on certain issues and regions on others
 - Which policy areas typical for center?
 - Which policy areas typical for regions?
- How does confederal system differ?
 - Why so few confederal systems?
- Does unitary system mean no powers for regions?
 - Decentralization, devolution

Federal states



Types of federalism

- Congruent versus incongruent: are units socially and culturally similar?
- Symmetric versus asymmetric: do regions have same powers?
 - Why are most federal systems asymmetric?
 - What are typical asymmetries?
 - What are justifications for asymmetries? What are problems?
- Non-territorial federalism
 - Cultural autonomy and communal representation
 - Ottoman millet system

How does federalism emerge?

- Coming together federalism
 - Contract or coercion
 - Is center too weak to create unitary?
 - US, Germany, Italy, EU?
 - More common in past – why?
- Holding together federalism
 - More common today
 - Spain, India, Belgium
 - Is trend towards more and more federalism?

Costs and benefits of size

- Military strength
 - Depends on technology, location, and international situation
- Large market
 - Depends on extent of free trade
- Dangers of diversity
- Benefits of nationalism

Is federalism undemocratic?

- Minorities can block policies (typically in Senate)
- Oppression of local groups – brown zones
- Constitution usually hard to change
- Violates political equality – different laws in different places
- Overrepresentation of regions in upper chamber

Is federalism more democratic

- More people get what they want
- Government closer to the people
- Right of exit prevents oppression
- Checks power of central government

Design issues

- # of states
 - Small: one group can try to capture center
 - Large: possibility of shifting coalitions, too homogeneous
 - Example: Czechoslovakia
- Homogeneous or heterogeneous states
 - Homogeneous: reduces conflict, but threat of secession
 - Heterogeneous: may learn to cooperate, but conflict
- Which powers to center/regions
- Asymmetry or symmetry

Federalism always goes with other institutions

- Bicameralism: regions need to be represented at center
 - Center can overwhelm regions
- Judicial review: arbiter in case of conflicts
- Rigid constitution (ie, hard to change): need to divide powers in clear way

- Thus: (i) preserve federalism and (ii) mitigate conflict

Market-preserving federalism

- Claim that federal states more prosperous: golden age Netherlands, US, China?
- Assumptions
 - Allow regions to set own taxes/regulation
 - Allow mobility of capital and labor
 - Hard-budget constraint: don't bail out unsuccessful regions
- Mechanism: more successful regions attract labor and capital => less successful regions run deficits => need to adopt more market-oriented policies
- Result: Competition leads to better economic policies

Race to bottom

- Same assumptions as before
- But now a region decides to offer more generous social services (welfare, education, infrastructure)
 - Needs to raise taxes to pay for services
 - Businesses and rich people leave, poor people enter
 - To balance the budget, needs to reduce services
- Because of competition, everyone has to reduce services to level of least generous

What can stop race to bottom?

- Social and infrastructure spending can attract rich people and business
 - Want to live in nicer places
 - Need educated workers
- Location matters
 - High-tax San Francisco better place to live than low-tax North Dakota

A solution

- Some powers best suited to center
 - Redistribution and welfare state: less mobility of capital and labor at national level
- Some powers best suited to regions
 - Infrastructure: more local knowledge and more pressure to be efficient
 - National level will produce white elephants because no discipline
- Often we get just the opposite
 - National politicians want to gain support with projects, but don't support welfare state

Tiebout model – the technical side

- Municipalities offering varying baskets of goods (government services) at a variety of prices (tax rates)
- Individuals will move from one local community to another until they find the one which maximizes their personal utility
- Result is an equilibrium provision of local public goods in accord with tastes of residents

Federalism and ethnic diversity

Pro

- Reduce stakes of conflict at center
 - Important issues can be decided at regional level
- Each group can govern itself
- Harder for one group to achieve hegemony
- Groups can learn to cooperate at lower level

Con

- Can perpetuate, reify cleavages
- Helps promote secession

How to hold it together?

- Political parties key – national parties help to unify
- Elections for high national office – president
- Politicians should have incentive to advance from local to regional to national office
- Doesn't work with just two regions – cf., Czechoslovakia, Belgium

States in the making

- Why did USSR, CSSR, and Yugoslavia break down exactly along lines of constituent republics – no more, no less
- Republics were states in the making
 - Clear boundaries
 - Institutions: ministries, agencies, etc.
- Easy for them to become states
- Groups without republics have difficulty creating viable state
 - Eg, Cechnya

USSR constituent republics



Other costs and benefits

- Laboratories of democracies
- Vertical competition: center versus regions
- Duplication and waste
 - US has 51 Departments of Education
- Regional governments more corrupt, less competent
- Costs of more levels of government