

Econ 347W – Federalism and the Economics of Public Policy
Spring 2007
Professor Paul Rothstein

Syllabus

Economics is primarily the study of markets. A small part of the discipline studies market failure and the ways that the government can help when markets fail. An even smaller part of the discipline considers the roles of different levels of government when markets fail. This often forgotten and distinctively messy subject is the focus of this course.

Consider this. No discussion of public policy is really about what “the government” should do. The debate is always about what the federal, state, or local government should do. Also, while some policies involve just one tier of government, the most important policy areas of the day – homeland security, health care, mass transportation, energy, education, welfare, urban development – involve all three.

One question we could ask is fundamentally positive: can we explain the arrangement of responsibilities that exists, either for any particular policy, or (if you are really ambitious) in general? We will consider this question from time to time. History, law and politics all play a role. This is not, however, the main focus of this course.

Our main concern is more normative: what should the arrangement of responsibilities be, both for particular policies and in general? History, law and politics (and public administration) play a role here, too. Economics, however, is distinctively useful. Economics may focus on the efficiency of certain kinds of markets, but efficiency itself is not really *about* markets, but rather about the *allocation of resources*. Markets allocate resources. So do the different tiers of government. It make sense to ask whether the activities of the different tiers of government are likely to be efficient, or at least efficiency enhancing.

Our focus, then, is on the economic (or efficiency based) rationale for multiple tiers of government in the development, implementation, and financing of public policies.

Economic efficiency is a widely accepted normative principle. It is “a good thing.” It is not the only good thing, though. There is generally a tradeoff between efficiency and other normative principles, like group welfare or fairness. These ideas will be part of this course as well.

In America, the legal relationship between the central government and the state governments is informed by the principles of federalism. This idea is at least implied

whenever we refer to the central government as the “federal” government. The relationship between the state and local governments is somewhat different, but since the early twentieth century it has been informed by the principles of local autonomy or home rule. In the first few weeks of the course, we examine the historical, political, and legal dimensions of American federalism and home rule.

After that, we spend a few weeks developing the principles needed for the economic analysis of public policy. Our approach will be mostly informal and intuitive. The goal is to develop an analytical method for addressing fundamental questions: why have a *public* policy, which tiers of government should be involved, and (more speculatively) will the policy work?

The ultimate test of whether this method is really meaningful and usable comes in the second half of the course. I hope to spend about three weeks on homeland security, two weeks on mass transportation, and two or three weeks on health care. We will use both primary and secondary source materials to learn about these policy areas. We will then apply the economic principles we have studied to evaluate both the appropriateness of the vast sums of money going into these programs and the arrangement of functions among the tiers of government. The goal is to cut through the conventional and often desultory discussions of public policies in these areas and achieve some fresh insights into the design and implementation of these policies.

This is both a 300-level economics class and a writing intensive class. There is no more work in this class than in any other class. You will spend more time writing and *rewriting* papers than in most other classes, though. Writing on a good subject will surely deepen your appreciation of it, so you may find this class uniquely satisfying.

Prerequisites

Economics 103 and 104.

Contacting Me

Office: Eliot Hall 321D
Email: rstein@wustl.edu
Phone: 935-4352

I am happy to talk with any of you about the course material, public policy, social science, the economy, economics, and the Economics Department. Make an appointment. If you have questions about your individual work, I prefer to receive those questions in writing and reply to them in writing.

Course Materials

1. Course reader. All of the assignments for the first six weeks are in the course reader.
2. Two books, “Protecting the American Homeland” (Brookings, 2003) and “Federalism and Health Policy” (Urban Institute, 2003).

Requirements

There are 500 points overall.

1. 3 page paper (75 points), 3-5 page paper (100), 3-5 page paper (100), 5-7 page paper (125). There is more information about the papers below.
2. Participation and Oral Presentations (100 points). Attendance is mandatory. We will spend a good deal of time talking, and you need to contribute to the conversations. You will also give two oral presentations on the assigned readings. Many classes will consist entirely of your oral presentations and our subsequent conversations.

Papers

1. *All* papers and comments on papers will be done electronically in WORD. There will be no exchange of paper in class. Papers will typically be due and returned on days we do *not* meet.
2. Each paper will be submitted twice. You will receive comments on the first submission and a grade with some final thoughts on the second. We will point out problems with the first submission and guide you towards improvements.
3. If an essay question is unclear to you, ask about it.
4. As a rule, we will not provide advance guidance on how to address a question. You need to learn to choose among alternative approaches while being uncertain about whether your approach is going to work. Also, it is difficult to provide guidance based on a conversation. These are technical essays. Your description may seem weak on its face but have a great foundation (that you just haven’t told me) or be intriguing on its face but incoherent when developed further. Real strengths and weaknesses become clear in a draft, not a conversation. Our comments on first submissions will contain feedback on whether your approach worked.
5. In order to guarantee a serious effort on the first draft, please note the following: weaknesses with the final draft will count against you even if they were present on the first draft and I did not comment on them. I will give you detailed comments on your first draft, but I will not completely overhaul it.

6. The first paper should be assigned around the third week of the course. You will have about a week for both first submissions and revisions.
7. I reserve the right to make the due date for the second submission of the last paper sometime during final exam week. This may not be necessary, though.
8. The papers will not require independent research. You will present and apply the theories learned in class to material either studied in class or given to you.

Grading Criteria for Papers

Papers will be graded according to the following criteria. The points refer to “grading points.” These will be converted into “assignment points” based on how much the particular paper is worth.

1. Quality of Ideas (10 points).
 - (a) Appropriate sense of the complexity of the topic.
 - (b) Appropriate awareness of opposing views, including good anticipation of objections.
 - (c) Appropriate use of evidence.
2. Organization and Development (10 points).
 - (a) Logical arrangement of ideas.
 - (b) A balanced presentation: the most important ideas receive the most space and less important ideas receive little or no space.
3. Clarity and style (10 points)
 - (a) Unity and coherence of paragraphs. Each paragraph should make one point well.
 - (b) Sentences have a voice, tone and style that is appropriate for the assignment.
4. Mechanics (10 points).

Correct grammar and word use.

Guidelines for Oral Presentations

1. Distribute a one page handout to the class.
No overheads or Powerpoint.
Using the blackboard takes time, but you may do so in a limited way if it helps.
2. Explain how the reading fits into the course. Why are we reading this now?
3. Walk us through the article. Do not, however, summarize everything in it. Explain just the key ideas and major claims.
4. Pay careful attention to critical charts and graphs. Walk us through the one that you think illustrate the central claim of the article.
5. Explain key vocabulary, but avoid unnecessary jargon.
6. Summarize and ask for questions.

Topics

1. History

- (a) Deil Wright, “IGR and Federalism: Concepts and Models,” in *Understanding Intergovernmental Relations*, 3d edition, Wadsworth Publishing, 1988.
- (b) Excerpts from the US Constitution.
- (c) William Riker, “The Origin of Federal Government,” in *The Development of American Federalism*, Kluwer Academic Publishers, 1987 (article originally from 1964).
- (d) *The Federalist Papers*: #6 (Hamilton), #10 (Madison), #39 (Madison), #45 (Madison), and #46 (Madison).
- (e) Martha Derthick, “How Many Communities” and “The Paradox of the Middle Tier,” in *Keeping the Compound Republic*, Brookings Institution Press, 2001.

2. Law

- (a) *Wickard v. Filburn*, 1942 (317 US 111).
- (b) *Atlanta Motel v. US*, 1964 (379 US 241).
- (c) *United States v. Lopez*, 1995 (514 US 549).
- (d) *Gonzales v. Raich*, 2004 (545 US —).
- (e) *City of Boerne v. Flores*, 1996 (521 US 507).
- (f) *South Dakota v. Dole*, 1987 (483 US 203).
- (g) Missouri Constitution, excerpts on local government.
- (h) Mandelker, Netsch, Salsich, Wegner, “Local Government,” in *State and Local Government in a Federal System*, The Michie Company, 1990. Includes *Hunter v. City of Pittsburgh*, 1907 (207 US 161) and *Gomillion v. Lightfoot*, 1960 (364 US 339).

3. Fiscal Federalism

- (a) “Federal Government Finances and Employment,” in 2002 Statistical Abstract of the United States, excerpts on federal revenues and spending.
- (b) “State and Local Government Finances and Employment,” in 2002 Statistical Abstract of the United States, excerpts on state and local revenues and spending.
- (c) “Aid to State and Local Government,” Chapter 10 in Analytical Perspectives, Budget of the United States Government, Fiscal Year 2005.
- (d) Graphs.
- (e) John Shannon, “The Deregulation of the American Federal System: 1789-1989,” in *The Changing Face of Fiscal Federalism*, M. E. Sharpe, Inc., 1990.

4. Political Theory

- (a) Paul Petersen, “Chapter 1: The Evolution of Modern Federalism,” in *The Price of Federalism*, Brookings Institution Press, 1995.
- (b) Paul Petersen, “Chapter 2: Functional and Legislative Theories of Federalism.”
- (c) Petersen, “Chapter 3: The Changing Federal System.”
- (d) Petersen, “Chapter 4: Why States Choose Different Policies.”

5. Economic Theory

- (a) Neil Bruce, excerpt #1, “Market Success and Market Failure,” in *Public Finance and the American Economy*, 2nd edition, Addison-Wesley, 2001.
- (b) Bruce, excerpt #2, “The Theory of Local Public Goods.”
- (c) Charles Tiebout, “A Pure Theory of Local Expenditures,” *Journal of Political Economy*, 1956.
- (d) Bruce, excerpt #3, “The Economic Theory of Federalism.”
- (e) Bruce, excerpt #4, “Intergovernmental Grants.”
- (f) Ron McKinnon and Thomas Nechyba, “Competition in Federal Systems: The Role of Political and Financial Constraints,” in *The New Federalism: Can the States Be Trusted*, Hoover Institution Press, 1997.

6. Homeland Security

- (a) Book: “Protecting the American Homeland” (Brookings, 2003)
- (b) Bin-Laden fatwa
- (c) “U.S. Report Lists Possibilities for Terrorist Attacks and Likely Toll,” The New York Times, March 16, 2005.
- (d) The National Strategy for Homeland Security (excerpts), Office of Homeland Security, Executive Office of the President, July 2002.
- (e) Congressional Budget Office, “Federal Funding for Homeland Security,” April 30, 2004.
- (f) “Who Bears the Risks of Terror?” The New York Times, July 10, 2005.
- (g) “Congress Reaches Compromise on Extending Terror Insurance,” The New York Times, December 17, 2005.
- (h) Report to Congress: Assessment: The Terrorism Risk Insurance Act of 2002 (excerpts), Office of Economic Policy, US Department of the Treasury, June 30, 2005.
- (i) Tim Ransdell, “Federal Formula Grants and California: Homeland Security,” Public Policy Institute of California, January 2004.
- (j) “New Rules Set for Giving Out Antiterror Aid,” The New York Times, January 3, 2006.
- (k) “Audit Faults US for Its Spending on Port Defense,” The New York Times, February 20, 2005.
- (l) Review of the Port Security Grant Program (excerpts), Office of the Inspector General, Department of Homeland Security, January 2005.

7. Medicaid

- (a) Book: “Federalism and Health Policy” (Urban Institute, 2003).
- (b) Data.
- (c) James Banks et al., “Disease and Disadvantage in the United States and in England,” *Journal of the American Medical Association*, 2006.
- (d) “In the Treatment of Diabetes, Success Often Does Not Pay,” *The New York Times*, January 11, 2006.
- (e) Gerard F. Anderson et al., “It’s the Prices, Stupid: Why The United States is So Different from Other Countries,” *Health Affairs*, 2003.
- (f) Medicaid Reform Commission Report
- (g) “US Faults Medicaid Accounting in 15 States,” *The New York Times*, April 12, 2005.
- (h) Craig Volden, “States as Policy Laboratories: Emulating Success in the Children’s Health Insurance Program,” *American Journal of Political Science*, 2006.

8. Urban Mass Transportation

- (a) Data.
- (b) Jose A. Gomez-Ibanez, “Chapter 7: The Federal Role in Urban Transportation,” in *American Domestic Priorities*, University of California Press, 1985.
- (c) Molly D. Castelazo and Thomas A. Garrett, “Light Rail: Boon or Boondoggle?” *The Regional Economist*, Federal Reserve Bank of St. Louis, July 2004.
- (d) Nathaniel Baum-Snow and Matthew E. Kahn, “The Effects of New Public Projects to Expand Urban Rail Transit,” *Journal of Public Economics*, 2000.
- (e) Annual Report on New Starts: Proposed Allocation of Funds for Fiscal Year 2005 (excerpts), Federal Transit Administration, Department of Transportation.