November 4, 2011

Dear CPW Participants:

Thank you for reading my paper!! This is a *preliminary (and very, very short)* version of my prospectus and I appreciate any and all feedback that you can offer. I do not wish to guide your feedback in any particular way but appreciate hearing thoughts on the *big idea* of the dissertation as well as thoughts on ways to model empirically the different patterns in diffusion that I wish to analyze. Thanks again.

Chinnu
Federal Centralization and Policy Diffusion: Does Central Control Block Innovation?

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I. Question(s):

1. **General**: What is the relationship between federal centralization and policy diffusion and innovation processes? How, and under what conditions, does federal centralization affect the direction and scope of policy diffusion and innovation processes?

2. **Normative**: Does federal centralization stifle policy innovation?

II. Defining the Question:

1. **Main Objectives**:

   In this dissertation, I propose to answer two major questions. First, I seek to explore and explain how federal centralization affects policy diffusion and innovation processes and outcomes in a set of policy domains across time. Centralization has already been shown (Chhibber and Kollman 1998, 2004) to affect the number of viable parties in “single-member, simple-plurality” federal systems and is assumed to condition the direction and scope of policy diffusion and innovation in a polity by specifying where power is located in that polity and how the exercise of power by actors at various levels of government can constrain the policymaking options of actors at other levels of government. Furthermore, federal centralization has been shown to affect the distributive and redistributive dynamics of a polity by privileging certain actors in a polity by way of fiscal capacity (McCoy and Friedman 1988; Weingast 1995; Peterson 1995; Oates 1999; Bednar 2008). However, despite a rich literature that links federal centralization to a variety of fiscal federal and electoral outcomes, the connection between federal centralization and policy diffusion and innovation has neither been established in theoretical or empirical terms. I view this omission as problematic—if for the sole reason that federal centralization should affect how policies spread from place to place if it affects how power is distributed to actors in various levels of government—and believe that my primary goal
in this dissertation is to build a theoretical connection between federal centralization and policy diffusion and innovation and defend that theoretical connection empirically.

In addition to my first goal, I have a second interest in this dissertation topic with respect to evaluating whether federal centralization blocks or stifles policy innovation. Since Louis Brandeis called the U.S. states “laboratories of democracy,” various scholars have argued that decentralization engenders greater policy innovation than centralization since the number of potential innovators is inflated from what is assumed to a single innovator in the case of centralized government. This conventional wisdom about the supposed innovative virtue of decentralization has persisted and manifested itself in debates about welfare reform in the U.S. among other issue areas (Peterson and Rom 1995; Volden 2002b; Bailey and Rom 2004). Recent theoretical work (Cai and Treisman 2009) hints at the possibility that decentralization may actually reduce policy innovation due to copycat behavior exhibited by reelection-minded local actors who cannot stomach the electoral risks of undertaking true policy innovation. I will test the assertion that decentralization induces policy innovation empirically to check the robustness of this conventional wisdom. If the conventional wisdom is overturned, then I will hopefully have done a service to public policy by highlighting the conditions under which greater innovation can be achieved if we designate innovation as a desirable public good.

This prospectus proceeds as follows. First, I outline my specific outcomes of interest as well as key explanatory concepts. Then, I sketch a very brief and preliminary theory about how the explanatory concepts are connected to the outcomes of interest. Next, I discuss how I envision an empirical test of the theory. Finally, I end with an explanation about why this dissertation question is one that is worth pursuing.

2. First Outcome of Interest: Policy Diffusion

One outcome of interest in this dissertation is policy diffusion. Policy diffusion, as discussed by Walker (1969); Gray (1973); and others describes a process whereby some outcome in unit i spreads or “diffuses” to unit j, where i ≠ j. Policy diffusion has gone by other monikers such as “contagion” (Anselin multiple years; Franzese and Hays 2007; Franzese, Hays, and Kachi 2010) or sometimes “policy spread.” The different phrases denote the process of movement of a policy, action, or decision from some starting point or set of starting points across a space of polities. Importantly, diffusion need not only be horizontal, or occur between polities of equivalent rank, as has been the focus in much American Politics literature (state-to-state
diffusion) and International Relations literature (nation-to-nation diffusion). Rather, diffusion can also be vertical, either in the form of central directives to local governments or a percolation of local actions that get taken up by a central government (Shinan and Volden 2008); or diffusion can be vertical upon some conditions and horizontal upon others. For example, the federal government in the U.S. may push vertical diffusion with the passage of the Civil Rights Act and pursue vertical strategies selectively with enforcement of civil rights statutes across specific states and communities (Bednar 2008). Selective enforcement by the federal government may then convince unpunished states and communities to adopt fair civil rights standards that have been implemented elsewhere as a way to avoid punishment from the federal judiciary. In this manner, civil rights policies have diffused vertically (in the form of the federal legislation and federal judicial rulings) and horizontally (in the form of adoptions of fair civil rights standards) based on actions of policymakers at both the federal and state levels. Using the policy diffusion outcome, I will examine whether and under what conditions the form that diffusion takes (vertical or horizontal) is influenced by the level of federal centralization.

3. **Second Outcome of Interest: Policy Innovation**

A second outcome of interest in the dissertation is *policy innovation*. Jack Walker (1969) and Virginia Gray (1973) described innovation as a process where U.S. states implement policies that are unique in that they have not been implemented elsewhere. An example of a policy innovation is the passage of mandated health insurance in Massachusetts. This example is an innovation because it has not been implemented in any other state. Even if other states adopt Massachusetts-style health insurance reform subsequently or if the federal government uses the Massachusetts reform as a template for national reform, the Massachusetts health insurance reform still counts as a policy innovation by virtue of its being the first such reform implemented anywhere in the polity. Later works on policy diffusion and innovation have conflated the two terms but it bears mention that diffusion and innovation are conceptually different phenomena. Whereas innovation captures a process whereby policy implementation by a single actor or set of actors is largely unique and untested elsewhere, diffusion captures a process whereby states adopt policies that have already been implemented elsewhere. However, the distinction between innovation and diffusion is not clear cut. Some innovations do not diffuse, implying that the population of innovations is not a pure subset of the population of diffusions. At the same time, an innovation may diffuse from unit $i$ to unit $j$ and still count as an innovation in its new
environment. For example, suppose that California innovates by implementing a gas mileage standard on autos and enforces the gas mileage standard by taxing manufacturers that do not conform to the standard. Now suppose that New York observes California’s innovation and implements a gas mileage standard on autos but chooses to enforce the standard through quotas rather than taxation.

The particular diffusion that has occurred in this case is an attempt by an individual state to set standards for gas mileage for automobiles. However, there are three innovations here: the very idea that states can use policy to manipulate auto gas mileage if that idea has not been implemented as policy elsewhere; California’s innovation in terms of using taxation to raise gas mileage; and New York’s innovation in terms of using quotas to raise gas mileage. Thus, while diffusion is characterized by the spread of similar policies and similar motivations for policies from $i$ to $j$, innovation is characterized by the adoption of unique policies or the implementation of existing policies in unique ways. The diagram below shows a pictorial representation of how diffusion and innovation relate to one another and the universe of policy outcomes.

**Figure 1: Diffusion, Innovation, and Policy Outcomes**

Within the universe of all policies across space, there is a subset of policies that share the property of being diffusive. Also within the universe of policies is a subset of policies that share the property of being innovative. A subset of policies share both diffusive and innovative properties and are unique at inception and/or implementation and then spread to other places. I believe ex ante that variation in federal centralization affects every element in the Venn diagram
and aim in this project to explore conditions under which federal centralization affects (a) the mechanism through which policy diffusion and innovation are undertaken by the states; and (b) the types of policies, some of which may be innovative, that are privileged to diffuse across the states. The two points above can be rephrased as conditional questions, with an additional hypothetical question added as a basis for comparison.

**Q1:** Absent federal influence, how do we expect diffusion and innovation to occur among the states?

**Q2:** Under what conditions does federal centralization affect how diffusion and innovation occurs? Does federal centralization privilege one form of diffusion (e.g., horizontal versus vertical) over the other?

**Q3:** Under what conditions does federal centralization affect what types of policies diffuse from state to state? Does federal centralization facilitate or hinder the diffusion of innovative policies from state to state?