Public Finance and Fiscal Management: CRN # 1026 & 2610
Milano School of International Affairs, Management & Urban Policy
The New School for Public Engagement

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Mon. 12:00 – 1:50 (afternoon)
or Mon. 6 – 7:50 P.M. (evening)

Office Hours: Mondays 2:30 to 5:30pm or by appointment. It is always a good idea to email me if and when you know you plan to come to office hours, but it is not required. I am also often available for a while after the evening section.

Graduate Assistants: Mr. Francisco Martinez martf324@newschool.edu and Ms. Carin Mirowitz mirowtc@newschool.edu. Office hours and review sessions to be determined.

Course Description: This course examines where governments get fiscal resources, how they spend them, and what happens to them along the way. It is required of all urban policy masters students (but open to others) and designed to give students knowledge of public financial management and fiscal administration. In essence, the subject of the course is government finance and budgeting and its impact on individuals and the economy. Students will become familiar with the theoretical and practical tools and methods used to determine, create, and analyze government budgetary policy options as well as the structure of the flow of public resources. Therefore the course will cover public revenues (mostly taxes) and public expenditures within a context of fiscal federalism.

The early part of the course is technical in nature, and deals largely with the revenue side of budgets. It will build the theoretical and analytical foundation necessary to understand the how taxes and other revenue raising mechanisms impact both equity and efficiency in both the public and private sectors. The course then considers actual budgetary practices (the expenditure side). We will, over the course of the semester, explore the socio-economic and political forces that shape the fiscal environment within which governments operate—the relationship between theory and practice. We will use a budget simulation exercise to better understand the actual decisions that budget-makers face.

Economic Analysis, Managerial Economics, or the equivalent are pre-requisites. I assume knowledge of economic analysis, in general, and the role of the public sector, in particular. It begins where the theory of public goods, externalities and market inefficiencies leaves off – with the public fisc and how to manage it. If you do not feel secure about your background knowledge and skills, you should refresh yourself with your basic Microeconomics text, and Mikesell's Chapter 1 (textbook info below). Understanding Supply and Demand curve frameworks and Public Goods is probably the most important foundation.

The course is organized into roughly two parts:

1. **Public Finance: Revenues and taxation, in theory and practice** (about 2/3 of the course)
   - < structure of revenues at different levels of American government
   - < financial flows between levels of government
   - < principles of taxation
   - < particular issues of income, sales, and property taxation
   - < practical problems involved in collecting revenue

2. **Fiscal management** (about 1/3 of the course)
   - < the distribution of budget responsibilities under American federalism
   - < basic budgeting (recurrent and capital)
   - < the links between policy, management and budgeting
   - < reporting and analyzing budget and financial conditions

Reading Materials: The required textbooks for the class are:
1) John Mikesell. *Fiscal Administration 8th* edition. Wadsworth Publishers. 2011;
2) Seidman, Laurence S. *Public Finance*, New York: McGraw Hill/Irwin, 2009. ISBN 978-0-07-337574-8 (might be listed as 2008 but key is "1st Edition")

You should also purchase the following: 1) Forsythe, Dall W. *Memos to the Governor: An Introduction to State Budgeting*. 2nd Edition updated, Washington DC: Georgetown University Press, 2004; 2) Joe Mysak, *Handbook for Muni-Bond Issuers*, Bloomberg, 1998

In addition, the syllabus refers to optional readings from the following book, and both the readings and the book are on reserve at the library as well. Again, the readings are required for doctoral students. This book gives a more formal exposition of the public finance theory and is a classic in the field: Rosen, Harvey S. and Ted Gayer *Public Finance. 8th* Edition (although earlier editions can work if you figure out how chapters line up). Chicago: McGraw Hill/Irwin, 2008. (Referred to as "Rosen" in the syllabus).

All books (required and optional) for purchase are or will be available in Barnes and Noble but I suggest you use online and other strategies to minimize your costs. Other required reading materials referenced in this syllabus are found online (website given), via the New School's periodical searcher, in the bulk pack (two copies of which will be on reserve in the library), or will be posted on the Blackboard page (BB). Students should make one copy of these readings for their personal use. We will also make use of newspaper and other articles that I will hand out as the class progresses.

Course Requirements and Grading Policies: There will be a sit-down, closed book mid-term and a take-home final. There will be 3 major assignments (two of which will be problem

sets) usually due two weeks after the class in which they are assigned. One major assignment will involve a budget simulation exercise. The major assignments will require the student either to demonstrate the ability to apply a budgeting or analytical tool or to discuss an issue of relevance to public sector management. It is expected that these assignments will be either word-processed or completed through a spread-sheet software package like Excel, as appropriate. Graphs may be drawn by hand, but should look as professional as possible. **Please double space and use 12 point times new roman font and one inch margins for all assignments, where possible.**

An assignment is considered on time only if it is handed in at the start of the class *for which you are registered*. Late assignments will be down-graded one portion of a grade (e.g. A- to B+) for ***each two days*** of lateness, weekends counting as one day. Assignments missing when the answers are returned to the class will count as a zero. You must come to class. Failing to learn of an assignment (or a change in or clarification for an assignment) because of a missed class will not be accepted as an excuse. If you miss a class, contact a classmate to see if we discussed anything you need to know. You should contact me as well.

A word of advice: start work on the problem sets as early as possible, leaving yourself time to come to me and/or the GA for help.

E-mail communication: I plan to communicate with the class via your New School email address. If you do not generally use that address, then you should set up a rule on your New School account to forward your email to whatever other address you want.

Finally, while the nature of the material to be covered necessitates (I believe) a fair amount of lecturing early in the semester, students will be expected to participate and contribute their own insights and understanding of the subjects discussed and covered in the reading. Also, we have a great deal of ground to cover, and it is impossible to cover all of the readings thoroughly in class. Therefore, readings that are more informational and conceptually less difficult may not be included specifically in class; however, you should of course feel free to bring them up for discussion in the appropriate class, and they will be included in the exams.

Students should expect to be ready to demonstrate *in class* that they have completed all readings for the day assigned. If you are not coming to class, or if you are going to be significantly late, please email or call me. This does not excuse you for missing the class, but it shows a basic level of professionalism.

No cell phones should ring or vibrate during class unless you inform me that you must keep yours on for some serious reason. Class may not be recorded without permission of the instructor.

Blog Assignment: As professional policy students, you should be reading at least one newspaper, relevant magazine, or reliable web-based "newsroom" on a regular basis. Some good examples would be *the New York Times, ProPublica.org, The Wall Street Journal, The Washington Post,*

The Economist, *Crain's New York Business*, or even the *NY Post* or *NY Daily News*. As part of building a culture of reading, I want you to keep track of articles related to tax and/or budget policy. Create a Blog and call it "*Yourname*'s Public Finance and Fiscal Management Blog 2011". At least once a week you should post links to articles you have found and write a few sentences with your thoughts about them. You should provide me with the link to your blog by September 8th. Over the course of the semester, I will ask you to bring in ideas from your "blog," both in class and through assignments. Specifically, about once a month we'll take 10 minutes at the start of class for students to raise issues and questions related to their ongoing blogs. The blog will count towards the grade for participation and effort. Here is the link to mine: http://gershbergpubfin.blogspot.com

Plagiarism and group work: You may work together in groups on the problems sets, but the final work you hand in *must be your own*. Problem sets that contain the same wording for qualitative explanations, the same lay-out for presenting quantitative answers, or few clear distinguishing features from another problem set are unacceptable and subject to the same school policies as for plagiarized work. Also, remember that the mid-term is sit-down, so you have to know the material on your own.

Grading system:	Midterm:	25%
	Assignments:	35%
	Participation and Effort	15%
	Final	25%

Preliminary Course Outline: Readings are required unless specified as "recommended" or "optional." "Recommended" readings are required for doctoral students. Readings are not listed in order of importance.

CLASS #1: **August 29:** Introduction: What are Public Finance and Public Financial Management? What are we doing here, how does it relate to where you have been and where you are going? What aren't we doing in this class that is probably really important.

Monday September 7th is Labor Day. No class.

CLASS #2: **September 12: The Financial Structure of American Government, Fiscal Federalism & the Links to Taxing and Budgeting**

Rosen, 8th ed., Chapter 1 "Introduction" pp. 1-16 (plus cartoon on p. 17). BB

Seidman, Chapter 1 pp. 18-22.

Mikesell, 7th ed., Chapter 1 (for review of econ); Chapter 2, pp. 42-50 (size and growth of government); Chapter 7, pp. 335-341

"Fate worse than debt: Can the U.S. Deficit Rise to $45.47 Trillion?," article in Knowledge@Wharton. Avialable at http://knowledge.wharton.upenn.edu/article.cfm?articleid=796

CLASS #3: September 19: Tax Evaluation Criteria, Tax Incidence and the Revenue Side of Budgeting.

Mikesell, Chapter 7, rest of chapter and cases for discussion.

Seidman, Chapter 1 (remainder, pp.1-18 and pp. 22-23), and Chapter 7

Note that it is a good exercise to read and think about the cases at the end of the chapters in the Mikesell text. We may not always discuss them directly in class, but they are very good thought exercises for learning.

Optional: Rosen chapters 14 and 15, "Taxation and Income Distribution" and "Taxation and Efficiency" BB (don't sweat the details on "Commodity Taxation w/o Competition" or "General Equilibrium models). Seidman, Chapter 7 appendix.

Optional: Siedman Chapter 4 for a review of Cost-Benefit analysis in public finance and economics. While we will not be doing formal cost-benefit analysis in this course, tax evaluation implicitly rests in part on the basic concepts of such analysis. In addition, I will presume in class

that you have a basic conceptual understanding of it from both your Economic Analysis and Policy Analysis classes (or other equivalent course work).

Problem Set #1 Distributed; Due October 3.

CLASS #4: September 26: Tax Evaluation (continued)

Review all readings from last week. We will begin by finishing up basic tax incidence.

Inman, Robert, Steven Craig, & Thomas Luce, "The Fiscal Future for American Cities: Lessons from Three Cities," Philadelphia: The Wharton Real Estate Center of the University of Pennsylvania, Research Impact Paper #4, December 1994.

"Cities Ignore the Relationship Between Tax Rates and Tax Revenues at Their Own Peril" Published: September 26, 2001 in Knowledge@Wharton Available at: http://knowledge.wharton.upenn.edu/article.cfm?articleid=437

CLASS #5: October 3: The Income Tax, Tax-Payer Behavior, and Low-income Assistance

Mikesell, Chapter 8

Seidman, Chapter 8 and Chapter 12

Recommended/Optional: Rosen 8th ed., Chapter 17 "The Personal Income Tax", if you want another presentation/take on the mechanics of the income tax (aside from Mikesell's and Seidman's presentation/take).

Problem Set #1 Due

CLASS #6: October 12: Consumption, Sales Taxes and other related taxes

Mikesell, Chapter 9

Seidman, Chapter 9

Seidman, Chapter 2 pp. 36-54 on "pollution tax" and pp 88-90 from chapter 4 of Seidman (section and box on global warming).

CLASS #7: October 17: Property Taxes (and other state and local revenue sources and issues briefly considered)

Mikesell Chapter 10.

Seidman, Chapter 10

Mikesell chapter 11. You are responsible for this material although we will not discuss it much in class

Problem Set #2 Distributed; Due October 31

CLASS #8: October 24: Part I—Fiscal Federalism and Intergovernmental Relations

Mikesell, Chapter 13

Review Seidman Chapter 10.

"America's Big Cities: If They Get So Much Aid, Why Are They Always in Trouble"? Published: June 06, 2001 in Knowledge@Wharton. Available at:
http://knowledge.wharton.upenn.edu/article.cfm?articleid=370

Part II—Estimation/Forecasting & Tax Expenditures

Mikesell, Chapter 12.

CLASS #9: October 31: Government Budgeting Introduced

Mikesell, Chapters 2 & 3.

Forsythe, Forward, Preface, Introduction, Memo 1 and "Budget Vocabulary"

Problem Set #2 is due

CLASS #10: November 7: Budgets – Methods & Practices

Mikesell, Chapter 4 and Chapter 5

Forstythe, Memos 2 and 3

Anthony, Robert N. "Games Government Accountants Play," *Harvard Business Review.* September-October, 1985, pp. 161-170.

Skim the 2 following Gauthier articles:

Stephen J. Gauthier, "Accounting and Financial Reporting," (Chapter 11) in John E. Petersen & Dennis R. Strachota, *Local Government Finance: Concepts and Practices*. GFOA, 1991, pp. 199-220.

Stephen J. Gauthier, "Auditing," (Chapter 12) in John E. Petersen & Dennis R. Strachota, *Local Government Finance: Concepts and Practices*. GFOA, 1991, pp. 221-40.

Hennings Bohn, Robert Inman "Balanced Budget Rules and Public Deficits: Evidence from the U.S. States" Wharton, UPENN, 1996. Only the summary is required, available at: http://knowledge.wharton.upenn.edu/paper.cfm?paperID=475

If this interests you, read the first 13 pages of the research paper.

Note: I strongly recommend that your studying for the mid-term is advanced enough to be able to ask the g.a. and me substantive questions by this week.

CLASS #11: November 14: Mid-term Learning Experience

CLASS #12: Noverber 21: Budget Simulation Exercise, will meet in the computer lab, location to be announced.

Forsythe, Dall W. *Memos to the Governor: An Introduction to State Budgeting*. Washington DC: Georgetown University Press, 2004, Memos 4, 5, 6, 7, and 8, "Final Word." Review previous readings in this book.

The BSE documentation will be emailed to you and/or at the library before this class. Good idea to bring a USB or pen drive.

CLASS #13: November 28: Long Term Investments & Public Debt: Bonds, Capital Budgeting & Pensions

Mikesell, Chapter 6, pp. 245-88, omitting Discounting and Cost-Benefit Analysis (pp.302-325)—however these sections are good to review your knowledge of these areas. Also Chapter 14.

Seidman, Chapter 13

Joe Mysak, *Handbook for Muni-Bond Issuers*, Bloomberg, 1998. (entire book)

Gershberg, Alec Ian, Michael Grossman, and Fred Goldman, "Health Care Capital Financing Agencies: The Intergovernmental Roles of Quasi-Government Authorities and the Impact on the Cost of Capital," *Public Budgeting and Finance*, Vol. 20, No. 1, March: 2000. Available through

the New School library periodical searcher. PDF version.

Questions for Final sent out on or about Thursday December 1st.

CLASS #14: December 5: Long Term Investments & Public Debt: Bonds, Capital Budgeting & Pensions (cont'd)

Review Readings from class #13

Mikesell, Chapter 15pp. 689-92 (Critical Issues in Public Employee Retirement Fund Management). The rest of chapter 15 is optional but recommended. It is essential if you plan to have a career in a budget office or in state or local public finance.

NY Times articles in series called "Costly Promises" on unfunded pension liabilities. This provides the link to the fifth article in the series, "Paying Health Care From Pensions Proves Costly" by Mary Williams Walsh, December 19, 2006 -- and that article has the link to the first four. You should read all five. http://www.nytimes.com/2006/12/19/business/19retire.html

"The trillion dollar gap: underfunded state retirement systems and the roads to reform," a report by the Pew Center on the States, read the executive summary of the full report available at: http://www.pewcenteronthestates.org/report_detail.aspx?id=56695

"State Pension System Liabilities," NBER Digest March 2011
http://www.nber.org/digest/mar11/w16453.html

"The Economics of State and Local Pensions," NBER Bulletin on Ageing and Health, 2011 No. 1: http://www.nber.org/aginghealth/2011no1/w16792.html

Inman, Robert P. "Paying for Public Pensions: Now or Later?" in *Business Review*. Published by the Federal Reserve Bank of Philadelphia, November/December 1980, pp. 3-12.
http://www.philadelphiafed.org/research-and-data/publications/business-review/1980/br80ndri.pdf

Note: you really should try to have your budget simulation exercise finished by this week. It's designed as a two week exercise.

CLASS #15 December 12 Discuss Budget Simulation Exercise. Meet in regular class. *Hand in and discuss BSE. Review Forsythe.*

FINAL Learning Experience Due Thursday December 15th by 6pm to Jackie Hadley on the 5th Floor. Must hand in hard copy