

State and Local Public Finance
PST 541
Graduate Program in Public Policy
UMASS-Dartmouth
Spring 2008

6:00 – 8:45 Tuesday
Lib Arts 103

Instructor:

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Office Hours: Tu - Th 12:50 – 1:50 pm

Wed 1:30 – 2:45 pm

and by appointment

Description

This course examines the expenditure and revenue decisions of state and local governments, the structures and institutions of subnational governments, and public sector responses to market failures. It will explore the determinants of state and local economic development and government fiscal behavior to identify criteria for selecting among policy alternatives. The principal objectives of the course are to describe the fiscal institutions in the U.S. system; to develop analytical tools, primarily drawn from microeconomics, for understanding the behavior of voters, public officials, businesses, and other actors affected by state and local policy; and to provide tools that will help students make fiscal policy decisions. The course is designed for students who plan to be practitioners, that is, who plan to make decisions about state and local expenditures and revenues and intergovernmental aid. The emphasis of the course is therefore more on institutions and on applications than on the fine points of theory, and students will be given many opportunities to apply their analytical skills to actual policy problems.

More specifically, this course will help to address several important policy questions regarding the public sector, including:

1. Why do we need a public sector?
2. Why do we need multiple layers and units of government within the public sector?
3. How are decisions made regarding the level and mix of goods/services provided by the state and local public sector?
4. How does the state and local public sector finance its activities?
5. How do the state and local public sector tax and spending policies affect the economy, and what impact does the economy have on the finances of the state and local public sector?

Readings

Textbook: Ronald C. Fisher *State and Local Public Finance*, 3rd edition. In addition a number of readings will be added as the course develops.

Assignments

Class sessions will consist of a mix of lectures, case discussions, and student presentations. All students are required to (1) participate in case discussions, (2) prepare two professional memos, (3) keep a journal of economic development initiatives of municipal government. Every student will also be required to take a midterm and a final examination.

There are **four** case discussions in the class. Each student must prepare two short (2 – page) professional memorandums to an imaginary decision maker. The memos must be based on two of the four cases in class. A student may select any two of the cases, but the memos must be turned in at the beginning of the class during which they are discussed. **Late memos will not be accepted.** In addition, each student must play a **lead role** in two of the case discussions. Students who do not have a lead role for a particular case are still expected to participate in the class discussion. These memos will be graded on substance as well as on presentation.

The second assignment is to keep a journal on **economic development** initiatives by a particular municipal government. It has several parts:

- Each student must select a municipality in Massachusetts.
- The journal must ultimately contain **three entries of one or two pages each** (plus supporting graphs or tables, if any).
 - The first entry is an overview of the revenues and expenditures of the local government you choose. It should include a description of all major sources from which the government obtains its revenue, the contribution of different sources to government finance, and major spending categories.
 - The second entry is a detailed description of major industries in the municipality and economic development programs initiated by the government in recent years. It should present how the programs are designed and implemented.
 - The final entry should analyze the impact of the major economic development programs, and the responding behavior by businesses, consumers, and other relevant parties. You also need to discuss the strength and weakness of the programs with some specific recommendations for the government to achieve better outcome.

The students must submit his or her journal to the instructor **on two occasions:** March 25 and May 13. **Late journals will be downgraded.** When the journal is handed in on March 25, it must contain the first and second entry as described above. When the journal is handed in on May 2, it must contain the third required entry together with the first two entries.

Grading

- Class participation 10%
- Two memos 20% (10% each)
- Journal 20%
- Midterm exam 20%
- Final exam 30%

Student's participation grade will be based on attendance and active and meaningful involvement in class sessions, discussion of cases, and working on assignments. The students are required to do the assigned readings prior to class and to come prepared to participate meaningfully and to ask relevant questions.

TENTATIVE CLASS SCHEDULE AND SYLLABUS

Week 1 January 29

Topic: Introduction and Overview

Question: What role should state and local governments play in the U.S.?

Readings:

Fisher: chapter 1 and 2.

Week 2 February 5

Topic/question: Who decides what public services local governments provide? Have politicians or government bureaucrats taken decision making power away from residents?

Readings:

Fisher, chapter 3, "Public Choice Without Mobility: Voting"

Fisher, chapter 4, "Demand for State and Local Goods and Services"

Fisher, chapter 5, "Public Choice Through Mobility"

Week 3 February 12

Topic/question: Can the cost of government be reduced through government consolidations or cooperation?

Readings:

Fisher, chapter 7, "Costs and Supply of State and Local Goods and Services."

Week 4 February 19: No Class (Follows Monday schedule)

Week 5 February 26

Topic/question: Is the privatization of public service delivery a good strategy for reducing the costs of government? Are the costs of state and local government services being driven up by un (or under) funded federal mandates?

Assignment: Case #1: Spending Incentives in New York

Week 6 March 4

Topic/question: How can we fund local governments and schools when voters (and legislators) want property tax reductions?

Readings:

Fisher, chapter 12, "Principles of Tax Analysis."

Week 7 March 11

Topic/question: Why is the property tax unpopular? What is the best way to deliver property tax relief?

Readings:

Fisher chapter 14, "Property Tax: Economic Analysis and Effects."

Assignment: Case #2: Private Police

Week 8: March 18 *Spring Break in Jamaica (Yeh Mon)*

Week 9: March 25 *Mid-Term Exam*

The first submission of your journal!

Week 10 April 1

Topic/question: What can be done about the shrinking sales tax base?

Readings:

Fisher, chapter 15, "Sales and Excise Taxes."

Week 11 April 8

Topic/question: Is heavier reliance on the income tax the key to making the tax system fairer?

Readings:

Fisher, chapter 16, "Income Taxes."

Week 12 April 15

Topic/question: Does the taxation of business discourage economic growth? Should businesses be taxed by state and local governments, and if so, how?

Readings:

Fisher, chapter 17, "Business Taxes."

Week 13 April 22

Topic/question: Should state and local governments borrow money as a way of solving current fiscal problems? Who is going to pay for public employee pensions?

Reading:

Assignment: Case #3: The Homestead Option in Syracuse

Week 14 April 29

Topic/question: Who should fund public education in the United States? How should it be done?

Readings:

Fisher, chapter 9, "Intergovernmental Grants."

Week 15 May 6

Topic/question: How can we guarantee that all children receive an *adequate* education? Do we need to reform the school finance system in Massachusetts?

Readings:

Week 16 May 13: Revision/Presentation

The second submission of your journal!

Final Exam: May 20: 6:30 - 9:30