



The Paul H. Nitze
School of Advanced
International Studies
Washington, D.C.

JOHNS HOPKINS
UNIVERSITY

SA.300.754 SECTION 1: PUBLIC FINANCE

Professor Jason J. Fichtner

Fall 2011

General Course Information:

Room: 102 Rome Building
Day and Time: Mondays, 8:00 am – 10:00 am
Instructor's Email: jjfichtner@gmail.com
Office Hours: After class, or by appointment

Teaching Assistant: Alexander Bruce
TA's Email: ahbruce@gmail.com
Tutorial: TBD, 4:45 pm – 5:45 pm
Office Hours: After class, or by appointment

This course will introduce the key concepts in public finance that underpin most discussions of public policy on the role and financing of the government sector, including public goods (both national and global), externalities and market failure, tax policy, social welfare economics, market structure, monetary and fiscal policy. Using these concepts, the course will highlight some of the challenging real world public policy issues confronting governments in different parts of the world. The course will also seek to examine the specific public finance challenges faced by developing and emerging market countries. These economic principles will be studied in detail to understand the application of public finance concepts to public policy analysis. The course will use specific policy areas as examples to provide students with the concepts and tools of public finance necessary to analyze the role of government intervention, its justification, and implications for efficiency and fairness.

Class will be two hours of lectures per week, and students are expected to contribute to the learning effort within classes, both by presenting and giving their views. The instructor will review basic economic principles and quantitative methods before assuming that students understand the concepts.

One of the main objectives of this course is to provide students with a purposeful mix of practice and theory. Students have to keep one foot in the world of practice and the other in the world of academic theory. You must become “pracademics.” Hence, class readings and discussions will revolve around economic concepts, tools and skills used in economic policy analysis and implementation. If available, guest speakers will occasionally visit to provide a practitioner’s viewpoint on how things work “in the real world.”

EXPECTATIONS

- You are expected to act with the highest professional ethics and skill.
- You are expected to complete all of the readings in advance of each class, and to be prepared to discuss them as well as your own experiences and insights.
- You are expected to adhere to the Johns Hopkins University Honor Code. For all written course assignments please provide citations for all outside sources for the ideas in your assignments. Copying, cheating or plagiarism will not be tolerated.
- Students are expected to attend all class meetings and participate in class discussions. If you have an important reason to miss a class or delay an assignment, and you let me know in advance, I will work to accommodate your situation. Important reasons involve major unexpected family or personal challenges and events (e.g. death in the family, severe illness, etc.).
- Even if you miss class, assignments are still due on time.
- Late assignments will be marked down **at least** 1/3rd of a letter grade.
- I have an open-door policy. Please do not hesitate to see me or the TA if you have any questions, concerns, comments, etc.

READINGS

The following textbook will be used in the class:

Required:

Harvey S. Rosen and Ted Gayer, *Public Finance*, 9th Edition (McGraw-Hill, 2010).

The textbook is available at the JHU bookstore and also can be purchased on-line from stores such as Amazon.com, Border.com or Barnesandnoble.com. Make sure to shop around for the best price.

Since the textbook is U.S.-focused, additional readings are assigned to provide a global perspective. These readings are available from the electronic reserves in the SAIS library or online and noted in the syllabus under each class date. The TA and I both reserve the right to hand out additional readings or current news articles to supplement the core readings and add to the class discussions.

ASSIGNMENTS

Issue of the Day

Please read the major newspapers and come to class ready to bring up interesting and relevant topics. Every day in the newspapers there are lots of stories that apply public finance and economic analysis to the discussion and debate of public policy issues. You are also encouraged to read the op-ed pages, as often they touch upon these issues as well. At the beginning of each class, I will solicit topics from the class and we will hold a brief (10-15 minutes) discussion session. This will be considered part of your overall class participation grade.

Homework Assignments

Weekly homework assignments will be handed out at the end of class and will be due to the TA by 5:00 pm the following Friday.

Policy Memorandums

To be successful professionally you need to write well. To improve your writing skills, you will write **two** one-page policy memos in which you make a policy recommendation based on a newspaper article and justify your position based on the economic concepts from the course. Choose an article from a major newspaper or periodical related to a public policy issue and use at least one of the public finance concepts developed in this course to analyze the article. Your assignment will be graded based on the quality of your analysis and the quality of your writing. Policy memos may be no longer than one page (single-spaced). Also, include a copy of the article used for the assignment with your finished paper. Please adhere to the space constraint and proofread carefully. Additional information will be handed out in class.

The first policy memo is due: **October 3, 2011.**

The second policy memo is due: **November 7, 2011.**

Group Presentation

There is no mid-term or final exam for the course. However, a group PowerPoint presentation dealing with the course material and concepts is required. The group presentation assignment will be handed out and discussed during the **November 7** class. Teams will consist of 3 – 5 people. Presentations will be due and given in class on the last scheduled class day, **December 5.**

Note: Paper copies of all assignments need to be handed in by the due date at the beginning of class, as well as delivered via e-mail to jjfichtner@gmail.com and ahbruce@gmail.com.

GRADES

Grades will be based on the following contributions:

Online Homework Assignments	20 percent
Policy Memo #1	20 percent
Policy Memo #2	20 percent
Group PowerPoint Team Presentation	20 percent
Participation (attendance & in-class)	20 percent

Grades will be assigned according to the following scale:

93-100	= A
90-92	= A-
87-89	= B+
83-86	= B
80-82	= B-
70-79	= C
< 70.0	= F

I do not grade on a Bell Curve – All students are expected to perform at B level or above.

Summary of Course Assignments, Activities and Due Dates:

<u>Item</u>	<u>Due Date</u>
Online Problem Set Assignments	Weekly
Policy Memo #1	October 3 rd
Policy Memo #2	November 7 th
Handout Group Presentation Assignment	November 7 th
Group Presentations	December 5 th

Course Schedule, Topics, Readings, and Activities

August 29 & September 12th (No Class September 5th – Labor Day Holiday)

CLASS INTRODUCTION & OVERVIEW

INTRODUCTION TO PUBLIC FINANCE & THE ROLE OF GOVERNMENT

Required Readings:

- (1) Rosen/Gayer, Chapters 1 -5;
- (2) V. Tanzi and L. Schuknecht, "[*Reconsidering the Fiscal Role of Government: The International Perspective.*](#)" American Economic Review, Papers and Proceedings of the Hundred and Fourth Annual Meeting of the American Economic Association, Vol. 87 (May, 1997), pp.164-168
- (3) *The Economics of Climate Change: The Stern Review* (UK HM Treasury, 2007), chapter 2 and also pp. 419-421.

Homework #1 - Problem Set (assignment to be discussed in class and due September 19th):

Sources:

- (1) *NY Times*, "Budget Puzzle: You Fix the Budget" (November 13, 2010) – <http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html>
- (2) The White House: *The National Commission on Fiscal Responsibility and Reform: The Moment of Truth* (December 2010)
- (3) Bipartisan Policy Center: *Restoring America's Future* (December 2010)

Supplementary Readings:

- (1) I. Kaul and P. Conceicao, "The Changes Under Way: Financing Global Challenges Through International Cooperation Behind and Beyond Borders" in *the New Public Finance: Responding to Global Challenges,*" (Oxford University Press, 2006) pp. 28-70
- (2) R. Barro, "Government Spending in a Simple Model of Endogenous Growth," *Journal of Political Economy*, vol 98, no. 5, pp. S103-S125 (1990)
- (3) R. Musgrave and P. Musgrave, "Fiscal Functions: *An Overview in Public Finance in Theory and Practice*, ed. by R. Musgrave and P. Musgrave (New York: McGraw-Hill, 5th, ed., 1989).
- (4) S. Gupta and others, *Equity and Efficiency in the Reform of Price Subsidies: A Guide for Policymakers* (unpublished; Washington: International Monetary Fund, 2000).
- (5) R. Coase, "The Problems of Social Cost," *Journal of Law and Economics*, vol (1960), pp. 1-44.
- (6) IMF Fiscal Affairs Department, *The Fiscal Implications of Climate Change*, (March 2008)

September 19

EVALUATING & ASSESSING PUBLIC EXPENDITURES: COST BENEFIT ANALYSIS, PUBLIC EXPENDITURE REVIEWS & RANDOMIZED TRIALS

Required Readings:

1. Rosen/Gayer, Chapter 8
2. S. Paternostro, A. Rajaram and E. Tiongson, "How Does the Composition of Public Spending Matter?" *Oxford Development Studies*, vol 35, no. 1 (March 2007).
3. World Bank, "On the Marriage Between Public Spending and Growth: What Else Do We Know?" PREM Notes; Economic Policy No. 13-. March 2009
4. D. Leonhardt, "MIT economists help their profession get its groove back," *International Herald Tribune*, February 19, 2008 (<http://www.nytimes.com/2008/02/19/business/worldbusiness/19iht-view.4.10196664.html>)
5. P. Atkinson and P. van den Noord, Managing Public Expenditure: Some Emerging Policy Issues and a Framework for Analysis, *OECD Economics Department Working Papers No. 285*

Supplementary Readings:

1. E. Duflo, "21 Solutions to Save the World: Fund What Works," *Foreign Policy*, May/June 2007
2. Fiscal Affairs Department, 1995, Unproductive Public Expenditures: A Pragmatic Approach to Policy Analysis, IMF Pamphlet Series, No. 48 (Washington: International Monetary Fund).
3. D. van de Walle, Assessing the Welfare Impacts of Public Spending (World Bank Policy Research Working Paper 1670 (1996)
4. Marc Robinson and Duncan Last, A Basic Model of Performance Based Budgeting (IMF, Sept 2009)

September 26

PUBLIC PRODUCTION, PUBLIC ENTERPRISES, AND THE ROLE OF GOVERNMENT IN THE PROVISION OF INFRASTRUCTURE AND FOSTERING ECONOMIC GROWTH

Required Readings:

1. World Bank, *Fiscal Policy for Growth and Development* (Paper presented to Development Committee, March 28, 2007, on Development Committee website - <http://siteresources.worldbank.org/INTPEAM/Resources/DC2007-0004%28E%29-FiscalPolicy.pdf>)
2. T. Henckel and W. McKibbin: "The Economics of Infrastructure in a Globalized World: Issues, Lessons, and Future Challenges," (Brookings Institution, June 2010)
3. N. Budina, H. Polackova Brix, and T. Irwin, *Public-Private Partnerships in the New EU Member States: Managing Fiscal Risks* (World Bank, 2007, available on the web - http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2007/08/28/000020953_20070828152554/Rendered/PDF/405580ECA0Part1LIC0disclosed0Aug271.pdf)
4. A. Estache, A. Gomez-Lubo, and D. Leipziger, "Utilities Privatization and the Poor: Lessons and Evidence from Latin America," *World Development*, vol. 29, no. 7 (2001), pp. 1179-98.
5. N. Birdsall and J. Nellis, "Winners and Losers: Assessing the Distributional Impact of Privatization," *World Development*, vol 331, no. 10 (2003), pp. 1617-1633.

Supplementary Readings:

1. J. Nellis, *The Evolution of Enterprise Reform in Africa: From State-owned Enterprises to Private Participation in Infrastructure — and Back?* (Center for Global Development) (2005)
2. E. Gramlich, "Infrastructure investment: A review essay," *Journal of Economic Literature*, vol. 32, no. 3 (1994), pp. 1176-96. F. Rioja, "The Penalties of Inefficient Infrastructure," *Journal of Development Economics*, vol 7, no. 1 (2003) pp. 127-37

3. Roel Landingin, *Loaves, Fishes and Dirty Dishes*
4. *Manila's Privatized Water Can't Handle the Pressure* (Center for Public Integrity, February 2003)
<http://projects.publicintegrity.org/water/report.aspx?aid=51>

October 3

SOCIAL INSURANCE AND SOCIAL SAFETY NETS

Required Readings:

1. Rosen/Gayer, Chapters 11 - 13
2. N. Barr, "[*The Pension Puzzle: Prerequisites and Policy Choices in Pension Design*](#)," *Economic Issues* No. 29, (Washington: International Monetary Fund, 2002).
3. Articles by A. Turner and by G. Carone and D. Costello in *Finance and Development*, (Sept. 2006, vol. 43, no.3)

Supplementary Readings:

1. S. Devarajan and S. Hossain, "The Combined Incidence of Taxes and Public Expenditure in the Philippines," *World Development*, vol 26, no. 6 (1998), pp. 963-77.
2. K. Chu, and S. Gupta, "[*Social Safety Nets in Economic Reform*](#)," in *Social Safety Nets: Issues and Recent Experiences*, ed. by K. Chu and S. Gupta (Washington: International Monetary Fund, 1998)
3. G. Schwartz, 1995, "[*Social Assistance*](#)," (unpublished; Washington: International Monetary Fund)

October 10

GOVERNMENT AND THE MARKET FOR HEALTH CARE & EDUCATION

Required Readings:

1. Rosen/Gayer, Chapters 9 & 10
2. D. Bloom, D. Canning and D. Jamison, "Health, Wealth, and Welfare" *Finance and Development* (March, 2004), pp. 10-15.
3. D. Filmer, J. Hammer, and L. Pritchett, "Weak Links in the Chain II: A Prescription for Health Policy in Poor Countries", in *World Bank Research Observer*, vol 17, no. 1 (2002), pp. 47-66
4. Articles by J. Cohen and D. Bloom, N. Barr and E. Hanushek on education in *Finance and Development* (June 2005, vol. 42, no. 2)

Supplementary Readings:

1. W. Hsiao and P. Heller, *What Should Macroeconomists Know About Health Care Policy* (IMF Occasional Paper, 2007)
2. C. Jones, *Why have health expenditures as a share of GDP risen so much*, NBER, Nov. 2002
3. M. Grossman, *Education and nonmarket outcomes*, NBER August 2005
4. B. Sianesi and J. van Reenen, "The Returns to Education: Macroeconomics" *Journal of Economic Surveys*, vol. 17 no.2, (2003), pp. 157-200

October 17

POLITICAL ECONOMY & PUBLIC CHOICE

Required Readings:

1. William F. Shughart II, "Public Choice," The Concise Encyclopedia of Economics.
<http://www.econlib.org/library/Enc/PublicChoice.html>
2. Robert Price, The Political Economy of Fiscal Consolidation, OECD Working Papers No. 776 (May 31, 2010)
3. B. Dorotinsky, Anatomy of the Budget, Sigma Brief No. 1
4. Era Dabla-Norris et-al, "Budget Institutions and Fiscal Performance in Low-Income Countries," IMF Working Paper, WP/10/80

Supplementary Readings:

1. B. Potter and J. Diamond, [*Guidelines for Public Expenditure Management*](#), (Washington: International Monetary Fund, 1999).
2. IMF, Fiscal Affairs Department, 2001, [*Measures to Address Corruption Problems in Tax and Custom Administration*](#), (unpublished; Washington: International Monetary Fund).
3. IMF, *Code of Good Practices in Fiscal Transparency*
4. T. Addison and S. Murshed, *The Fiscal Dimensions of Conflict and Reconstruction*, WIDER Discussion Paper No. 2001/49 (August 2001)
5. J. Hunt, "Why are some public officials more corrupt than others," National Bureau of Economic Research (NBER) Working Paper, Aug. 2005
7. B. Dorotinsky, *An overview of public expenditure management* (World Bank, unpublished)
8. C. Malena et al, *Social Accountability: An Introduction to the Concept and Emerging Practice*, Social Development Papers No. 76 (World Bank, December 2004)

October 24

WHERE SHOULD GOVERNMENT SPENDING OCCUR?

Required Readings:

1. Rosen/Gayer, Chapters 22
2. Charles Tiebout, "An Economic Theory of Fiscal Decentralization," 1961.
<http://www.nber.org/chapters/c2273.pdf>
3. "Decentralization: Rethinking Government," chapter 5 in World Bank, *Entering the 21st Century: World Development Report, 1999-2000*, pp. 107-124. Available at
<http://www.worldbank.org/wdr/2000/pdfs/chap5.pdf>
4. Joumard and P. Kongsrud, Fiscal Relations Across Government levels: How can the challenges associated with *fiscal federalism best be addressed?* OECD Economics Department Working Papers No 375 (2003)
5. R. Bird and M. Smart, "Intergovernmental Fiscal Transfers: International Lessons for Developing Countries," *World Development*, vol 30, no.6 (2002), (pp. 899-912)

Supplementary Readings:

1. T. Ter-Minassian, "Intergovernmental Fiscal Relations in a Macroeconomic Perspective: An Overview," in *Fiscal Federalism in Theory and Practice*, ed. by T. Ter-Minassian (Washington: International Monetary Fund, 1997).

October 31, November 7 & November 14

UNDERSTANDING TAX POLICY, FRAMEWORK FOR TAX ANALYSIS & DEFICIT FINANCING
Instructor PowerPoint Presentation on Federal Tax & Budget Policy

Required Readings:

1. Rosen/Gayer, Chapters 14 -16 (October 31st)
2. Rosen/Gayer, Chapters 17-19 (November 7th)
3. Rosen/Gayer, Chapter 20 (November 14th)
4. V. Tanzi, and H. Zee, 2000, "Tax Policy for Emerging Markets: Developing Countries," *National Tax Journal* (June 2000), vol. 53, no. 2. p. 299
5. R. Bird and E. Zolt, *An Introduction to the Design and Development of Tax Policy in Developing and Transitional Countries* (2006) (World Bank on web:
<http://www1.worldbank.org/publicsector/pe/pfma07/ModuleRevised.doc>)

Supplementary Readings:

1. P. Shome, *Tax Policy Handbook* (Washington: International Monetary Fund, 1995), pp. 25-46, 134-179
2. R. Bird, *User Charges in Local Government Finance*, Intergovernmental Fiscal Relations and Local Financial Management Program, World Bank Institute, 1999
3. IMF, *Fiscal Adjustment for Stability and Growth* (2006);
4. Stanley Fischer and William Easterly, "The Economics of the Government Budget Constraint," *World Bank Observer*, (1990), pp. 127-42.
5. IMF, "Will It Hurt? Macroeconomic Effects of Fiscal Consolidation" *World Economic Outlook*, chapter 3, (October 2010), pp. 93-124.
6. Goldman Sachs, "Limiting the Fall-Out from Fiscal Adjustment," Global Economics Paper 195 (April 2010)

November 21 NO CLASS – THANKSGIVING HOLIDAY BREAK

November 28

TAX REFORM

Required Readings:

1. Rosen/Gayer, Chapters 21
2. Robert E. Hall and Alvin Rabushka, "The Flat Tax." 2007. All chapters available online in pdf at:
<http://www.hoover.org/publications/books/8329>
3. L. Ebrill, M. Keen, J. Bodin, and V. Summers, 2001, *The Modern VAT* (Washington: International Monetary Fund), Chapter 11, pp. 113-124 and Chapter 13-15, pp. 138-165.

Supplementary Readings:

1. P. Shome, *Tax Policy Handbook* (Washington: International Monetary Fund, 1995), pp. 86-103

December 5

GROUP PRESENTATIONS, SUMMARY & CONCLUSIONS