

PUBL 6312 Public Finance

Mondays, 5:30–8:30 PM, Room: TBA
University of Houston
Master of Public Administration Program
Fall 2015

Professor Ling Zhu

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Course Description

This course provides an overview of the economic rationale for government decisions as applied in public administration. To accomplish this, this course introduces basic economics theory for government intervention in the market system, reveals methods of solving public problems and conflicts over public resource allocation, and reviews issues related to how government finances itself.

In the first part of the course, we will discuss foundations of public finance. In the second part of the course, we will use both positive and normative points of views to study the rationale of government size and decisions in resource allocation. The tools of public finance will be covered in the third part of the course. In the fourth part of the course, we will complete our examination of the multi-level government finance.

Overall, this course combines theory in the textbook and examples of application from the additional readings and current events. The primary emphasis is on using theoretical concepts and models to enhance students understanding of public finance and its application in the practice of public administration.

Learning Objectives

1. This course provides students with numerous microeconomics theories and concepts. Through the readings and lectures, students should become more familiar with major public finance theories, concepts, and approaches.
2. Students should gain a better understanding of the importance of public finance to the practice of public management and public policy analysis.

3. Students should gain critical thinking skills and be able to analyze government fiscal decisions and to evaluate the effects of these decisions based on criteria such as efficiency, equity, effectiveness, etc.

Required Readings

1. Arye L. Hillman, 2009. Public Finance and Public Policy: Responsibilities and Limitations of Government. Second edition. Cambridge University Press (hereafter, Hillman 2009).
2. Additional readings listed for weekly topics. All additional readings can be accessed through the Blackboard Learn course webpage.

Course Requirements

1. Class attendance and active participation in class discussion.
2. Read the assigned readings prior to each class meeting.
3. Weekly discussion notes. Each student is required to submit one discussion note on each weeks readings. Discussion notes are due by Friday at noon (via the Blackboard Learn assignment drop-box) each week prior to the subsequent Monday when the class meets. All the discussion notes should be the most important questions or arguments that the student has identified based on the assigned readings. They will help to foster seminar discussion and will be shared at the beginning of each class meeting. DO NOT write more than 120 words in your discussion note.
4. Exams. There will be two take-home written exams, one in late September and one in early November. Students will have one week to finish each exam.
5. Research paper. In the final paper assignment, students are to analyze the cause or effect of a public finance policy using the theories and concepts learned in this course. Because we emphasize how public values and interests are realized in the practice of public administration, students are encouraged to link the analysis to their own organizations, or to choose a government agency that is most interesting to them. When composing their final paper, students should follow the Chicago Manual of Style, <http://www.chicagomanualofstyle.org/home.html>. Students should submit their final papers via Blackboard Learn(Turn-it-in submission link).
6. Mini-Conference. We will hold a mini-conference during our class meeting on Week 16 (December 7). Each student will have 15 minutes to present his or her research paper to the class and to draw feedback from the audience.

Attendance and Late Policy

1. Attendance. Absence from the class will only be accepted in extenuating circumstances with a university-accepted excuse. If you know in prior that you cannot attend the class, please inform the professor before the scheduled class-time. If there is an emergency, in which you need to leave early, you should avoid disturbing the lectures.
2. Exam Policy. Students are required to take and turn in exams at the scheduled time. During the exam period, students ARE NOT allowed to discuss exam questions with others. Students are allowed to email the professor if they need any clarification of the exam questions. The professor will share the answer to each clarification question with the entire class.

3. Late Policy. Late work will be penalized by one letter grade. E.g. an A-paper turned in one day late will become a B-paper. Late work would only be accepted without grade-penalty if you have university-accepted excuses.

Grading

1. Participation and weekly discussion notes, 15%
2. Take-home exam 1, 25%
3. Take-home exam 2, 25%
4. Final paper, 25%
5. Mini-Conference Presentation, 10%
6. Final Grades
 - A = 100-95 (Excellent)
 - A- = 94-90
 - B+ = 89-87 (Good)
 - B = 86-84
 - B- = 83-80 (Fair)
 - C+ = 79-77
 - C = 76-74 (Poor)
 - C- = 73-70
 - D+ = 69-67
 - D = 66-64
 - D- = 63-60
 - F = 59-0 (Failing)

Academic Integrity

As commonly defined, presenting the words or works of others' as your own is plagiarism. Plagiarism is one of the worst academic sins, for the plagiarist destroys the trust among colleagues, without which research cannot be safely communicated. Plagiarism is also a violation of the UH Academic Honesty Policy. If you are uncertain of what constitute academic dishonesty, you should contact me prior to submitting the assignment and/or check the UH Academic Honesty Policy from the university website: www.uh.edu/provost/policies/uhhonestypolicy.html. Students are expected to adhere to the UH Academic Honesty Policy. Cheating or plagiarism in course assignments, exams, and the final paper will lead to a grade of F.

Americans with Disability Act (ADA)

The Americans with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you need special accommodations and assistance due to a disability, please contact the Center for Students with

DisABILITIES (CSD Building 568, Room 110) and the Learning Support Services (LSS, 321 Social Work Building), or call 713-743-5411 to make appropriate arrangements.

Course Calendar

PART I. FOUNDATIONS OF PUBLIC FINANCE

Week 1 (August 24): Course Overview

Week 2 (August 31): Public Problems, Public Values, and Government Size

Topics and Readings

- The need for government: Hillman 2009, Chapter 10.
- Public sector economics: Holcombe 2006, *Public Sector Economics: The Role of Government in the American Economy*, 477-498.
- Government growth: Malhotra 2006. "Government Growth and Professionalism in U.S. State Legislatures." *Legislative Studies Quarterly*, 31(4): 563-584.
- The limitations of government: Lowery 1983. "Limitations on Taxing and Spending Powers: An Assessment of Their Effectiveness." *Social Science Quarterly*, 64(2): 247-63.
- Reminder: Your first discussion note is due on August 28 (noon). Please write your discussion note based on the above-listed readings for Week 2.

PART II. ECONOMICS AND GOVERNMENT EFFECTIVENESS

Week 3 (September 7): Labor Day Holiday

Week 4 (September 14): Public Sector Economics

Topics and Readings

- The economic role of government: Holcombe 2006. *Public Sector Economics: The Role of Government in the American Economy*, Chapter 6.
- Markets and governments: Hillman 2009, Chapter 1.

Week 5 (September 21): Market Failure and Corrections

Topics and Readings

- Public goods: Hillman 2009, Chapter 3.
- The market system and market failure: Haughwout et al. 2004. "Local Revenue Hills: Evidence From Four U.S. Cities." *Review of Economics and Statistics*, 86 (May): 570-585.
- Market corrections: Hillman 2009, Chapter 5.
- Externality: Goodman and Stano 2000. "HMOs and Health Externalities: A Local Public Good Perspective." *Public Finance Review*, 28(3): 247-269.

Week 6 (September 28): Government Institutions and Governance

Topics and Readings

- The principal-agent problem: Hillman 2009, Chapter 2.
- Quasi-government institutions: Moe 2002. “The Emerging Federal Quasi Government: Issues of Management and Accountability.” *Public Administration Review*, 61(3): 290-312.
- Bureaucrats and policy preferences: Garand 1991. “Bureaucrats, Policy Attitudes, and Political Behavior: Extension of the Bureau Voting Model of Government.” *Journal of Public Administration Research and Theory*, 1(2):177-212.
- Public service motivation: Crewson 1997. “Public-Service Motivation: Building Empirical Evidence of Incidence and Effect.” *Journal of Public Administration Research and Theory*, 7(4): 499-518.
- EXAM 1. Exam questions will be distributed on September 25 and due on Oct. 5 (noon), on Blackboard.

PART III. TOOLS OF PUBLIC FINANCE

Week 7 (October 5) Taxation

Topics and Readings

- Types of taxation: Hillman 2009, Chapter 4.
- Choice of taxation:
 - Hillman 2009, Chapter 9.
 - Williams and Collins 1997. “The Political Economy of Corporate Taxation.” *American Journal of Political Science*, 41(1): 208-244.
- Sources of government revenue: Berry and Lowery.1992. “An Alternative Approach to Understanding Budgetary Trade-Offs.” *American Journal of Political Science*, 34(3): 671-705.
- Power of taxation and economic efficiency: Berry and Berry. 1992. “Tax Innovation in the States: Capitalizing on Political Opportunity” *American Journal of Political Science*, 715-42.
- Local development and TIF: Man and Rosentraub 1998. “Tax Increment Financing: Municipal Adoption and Effects On Property Value Growth.” *Public Finance Review*, 26(6): 523-547.

Week 8 (October 12) Social Insurance

Topics and Readings

- Social justice and insurance: Hillman 2009, Chapter 7.
- Risk, social insurance institutions, and social policies: Paulry 1986. “Taxation, Health Insurance, and Market Failure in the Medical Economy.” *Journal of Economic Literature*, 24(2): 629-675.

- Unemployment insurance: Neill 1989. “A Welfare-Theoretic Evaluation of Unemployment Insurance.” *Public Finance Review*, 17(4): 429-444.
- Unemployment insurance in the era of globalization. Lipsmeyer and Zhu 2011. “Immigration, Globalization, and Unemployment Benefits in Developed EU States.” *American Journal of Political Science*, 55(3):647-664.
- Popular demand and social insurance: Rehm, Hacker, and Schlesinger 2012. “Insecure Alliance: Risk, Inequality, and the Support for the Welfare State.” *American Political Science Review*, 106(2):386-406.

Week 9 (October 19) Entitlements

Topics and Readings

- The attributes and consequences of entitlements: Hillman 2009, Chapter 8.
- Old age benefits: Duggan et al. 1996. “Distributional Effects of Social Security: the Notch Issue Revisited.” *Public Finance Review*, 24(3):349-370.
- Universal health care: Howard 2010. “Is the Demand for Health Care Generosity Equal for All Recipients? A Longitudinal Analysis of State Medicaid Spending, 1977-2004.” *Public Finance Review*, 38(3): 346-377.
- Income-redistribution:
 - Ben-Shalom, Moffitt, and Scholz. 2011. “An Assessment of the Effectiveness of Anti-Poverty Programs in the United States.” NBER Working Paper No. 17042.
 - Kenworthy 1999. “Do Social Welfare Policies Reduce Poverty? A Cross-National Assessment.” *Social Forces* 77(3):1119-39.

Week 10 (October 26) Government Spending and Deficit

Topics and Readings

- Spending and deficit: Garand and Baudoin 2003. “Spending, Taxes, and Deficits: Fiscal Policy in the American States. in Virginia Gray and Russell Hanson eds. *Politics in the American States*, 8th edition.
- Decision trade-offs: Hendrick and Garand 1991. “Expenditure Tradeoffs in the U.S. States: A Pooled Analysis.” *Journal of Public Administration Research and Theory*, 1(3):295-318.
- Citizen preferences over public finance:
 - Hicks 1984. “Elections, Keynes, Bureaucracy, and Class: Explaining U.S. Budgetary Deficits, 1961-1978.” *American Sociological Review*, 49(2):165-182.
 - Hansen 1998. “Individuals, Institutions, and Public Preferences over Public Finance. *American Political Science Review*, 92(3):513-533.

Week 11 (November 2) Regulations and Fiscal Rules

Topics and Readings

- Regulatory capture:

- Stigler 1971. “The Theory of Economic Regulation.” *Bell Journal of Economics and Management Science*, 2:3-21.
- Holburn and Bergh 2006. “Consumer Capture of Regulatory Institutions: The Creation of Public Utility Consumer Advocates in the United States.” *Public Choice*, 126:45-73.
- Fiscal rules in economic recession: Hong 2015. “Fiscal Rules in Recessions: Evidence from the American States.” *Public Finance Review*, early online access.
- State fiscal responses to welfare reform: Chernick and Reschovsky 2003. “State Fiscal Responses to Welfare Reform during Recessions: Lessons for the Future.” *Public Budgeting & Finance* 23(3):3-21.

PART IV. FEDERALISM AND MULTI-LEVEL GOVERNMENT FINANCE

Week 12 (November 9) Fiscal Federalism and Decentralization

Topics and Readings

- Fiscal decentralization: Prohl and Schneider 2009. “Does Decentralization Reduce Government Size? A Quantitative Study of the Decentralizations Hypothesis.” *Public Finance Review*, 37(6):639-664.
- Local governments and economic development: Hou. 2006. “Budgeting for Fiscal Stability Over the Business Cycle.” *Public Administration Review*, 66(5): 730-741.
- Decentralization and government borrowing: De Mello. 2001. “Fiscal Decentralization and Borrowing Cost: the Case of Local Government.” 29(2):108-138.
- Multi-level government finance: Colburn. 1990. “A Public Choice Explanation for the Decline in Real Income Transfers.” *Public Finance Review*, 18(1): 123-134.

Week 13 (November 16) Public-Private Partnership and Public Finance

Topics and Readings

- New Public Management:
 - Hood and Peters 2004. “The Middle Aging of New Public Management.” *Journal of Public Administration Research and Theory*, 14(3): 267-282.
 - Dunleavy et al. 2006. “New Public Management Is Dead-Long Live Digital-Era Governance.” *Journal of Public Administration Research and Theory*, 16(3): 467-494.
- Privatization and public-private partnership:
 - Warner and Hefetz 2008. “Managing Markets for Public Service: the Role of Mixed Public-Private Delivery of City Services.” *Public Administration Review*, 68(1): 155-166.
 - Brudney et al. 2006. “Exploring and Explaining Contracting Out: Patterns among the American States.” *Journal of Public Administration Research and Theory*, 15(3): 393-419.

- Domberger and Jensen 1997. “Contracting Out by the Public Sector: Theory, Evidence, Prospects. *Journal of Public Administration Research and Theory*, 13(4): 67-78.
- Hollow State: Agranoff and McGuire 1998. “Multi-network Management: Collaboration and the Hollow State in Local Economic Policy.” *Journal of Public Administration Research and Theory*, 8(1):67-91.

Week 14 (November 23) Local Government and Public Finance

Topics and Readings

- Municipal Bond Ratings: Zaporowski 2012. “Determinants of Municipal Bond Ratings for General-Purpose Governments: An Empirical Analysis.”
- Special purpose governments:
 - Duncombe and Hou 2014. “The Savings Behavior of Special Purpose Governments: A Panel Study of New York School Districts.” *Public Budgeting&Finance* 34(3):1-23.
 - Nunn and Schoedel 1997. “Special Districts, City Governments, and Infrastructure Spending in 105 U.S. Metropolitan Areas.” *Journal of Urban Affairs* 19(1): 59-72.
 - Skelcher 2007. “Does Democracy Matter? A Transatlantic Research Design on Democratic Performance and Special Purpose Governments.” *Journal of Public Administration Research and Theory* 17(1):61-76.

Week 15 (November 30) Exam 2. Exam questions will be distributed on November 23 and due on December 5 (noon), on Blackboard.

Week 16 (December 7) Wrap-up and Mini Conference

Week 17 (December 14) Research paper due at noon, on Blackboard.

Caveat: The aforementioned weekly schedule and assignments in this course may be subject to change.