COURSE SYLLABUS

PED-210: PUBLIC FINANCE IN THEORY AND PRACTICE
FACULTY: JAY K. ROSENGARD

Course Objective

Public finance issues are central to economic and political discourse worldwide, as one of the primary functions of government is to generate resources from its people to spend money improving the lives of its people. However, while the concept of “money from the people, for the people” is quite simple conceptually, there is little agreement on how best to raise and spend public funds in practice. Thus, the primary course objective is to provide students with the tools, and the skills to use these tools, to understand the underlying concepts and practical tradeoffs entailed in public finance policy alternatives. This will prepare students to be informed consumers of public finance data, and thus, equip students to engage constructively in the formulation, implementation, and evaluation of public finance policies.

Course Audience

The course is intended for three main audiences:

Practitioners, consisting of central, state/provincial, and local/municipal government officials dealing with public finance and fiscal policy, private sector providers of public infrastructure and services, and community-based development groups.

Academic community, consisting of students who would like to enter the field of public finance, as well as scholars and faculty doing research and teaching in this field.

Citizens, consisting of members of the general public interested in understanding and influencing their country’s budget and tax policies.

Course Overview

The course examines policy options, with their strategic trade-offs and operational implications, for the design and implementation of public finance in both high-income countries as well as developing and transitional economies.

It covers: the role and size of the public sector, including the rationale for public sector interventions such as market failure and distributional concerns; key factors determining a nation’s fiscal architecture; public resource mobilization via user charges and taxation, including the economics of taxation, taxation of income (personal and corporate income tax), wealth (property tax), and consumption (sales, excise, and value added taxes), tax incentives, tax compliance and enforcement, and tax reform; public expenditure policy, including assessment of government social protection programs, megaprojects, public sector efficiency and effectiveness, and the role of the private sector in the production and provision of public goods and services; fiscal balance and deficit financing; and fiscal decentralization and intergovernmental fiscal relations. The course will also explore public finance challenges for both national and subnational governments in coping with the impact of the global economic crises.

The course utilizes case studies, placed in a comparative conceptual framework, to evaluate the impact of alternative resource mobilization and expenditure policies on allocative efficiency, social equity, and economic growth.

Note: There are no economics or statistics course prerequisites. Both economists and non-economists are welcome. Qualifies as meeting “Strategic Management” requirement for MLD Certificate.
Course Outline

Course Preview: Innovative Public Finance via Social Impact Bonds

I. The Role and Size of the Public Sector
   A. Economic Rationale for Public Sector Interventions: Market Efficiency and Market Failure, Distributional Concerns
   B. The Nature, Magnitude, and Quality of Public Sector Interventions: Defining the Responsibilities and Measuring the Size of the Public Sector; Government Failure
   C. Understanding a Nation’s Fiscal Architecture: Building Appropriate Revenue and Expenditure Systems

II. Public Expenditure Policy
   A. Megaprojects
   B. Government Social Protection Policies
   C. Public Sector Production and Provision, Private Sector Participation/Public-Private Partnerships in Production and Provision (PSP/PPP); Social Entrepreneurship

III. Public Resource Mobilization
   A. Economics of Taxation
   B. Taxation of Income and Wealth
   C. Taxation of Consumption
   D. Taxation and the Environment, Taxation and Natural Resources
   E. Tax Incentives
   F. Tax Compliance and Enforcement, Tax Reform
   G. User Charges

IV. Intergovernmental Fiscal Relations and Local Government Finance
   A. Fiscal Federalism and Fiscal Decentralization
   B. Resource Transfers and Own Source Revenue
   C. Local Government Debt Financing
**Course Requirements**

Grades will be determined by:

1. **Three case-based policy memos (15% each \(\rightarrow\) 45% total)**

   The policy memos provide opportunities for the application of quantitative and qualitative analytic skills in addressing critical strategic and tactical public finance challenges. For each of these assignments, students prepare a **two-page** policy memo that answers specific questions raised by a case study they are given to read and analyze.

2. **One individual self-selected policy brief (35%)**

   The policy brief provides an opportunity to explore in depth a public finance issue of the student’s own choosing. Students: a) select a particularly important and complex public finance challenge for any national or subnational jurisdiction around the world; and b) write a **six-page** policy brief addressed to the appropriate official that applies concepts and tools from the course to analyze the problem and provide policy recommendations to address the problem. Further guidance is provided during the course.

3. **Class participation (20%)**

   Class participation greatly enriches the classroom experience, as it facilitates a genuine exchange of knowledge and experience among students, and between students and faculty. Participation thus comprises a significant share of the total course grade.

**Course Meetings**

Mandatory classes: Tuesday and Thursday, 8:45-10:00 a.m., L-130.
Optional review sessions: Friday, 10:15-11:30 p.m., 1BR401.

**Final Exam**

There is no in-class or take-home final exam. Instead, there is the policy brief summarized above (Course Requirement #2), due on Friday, 9 December.

**Office Hours**

Faculty office hours are held at 124 Mt. Auburn Street, Room 220N (University Place Building, North Wing, across the street from the post office). Please contact faculty assistant Jennifer Valois (617-495-1339, jennifer_valois @hks.harvard.edu) to schedule an appointment.
All required and optional readings are available on-line on the Class Page for free unless otherwise noted. All reference texts are on reserve at the HKS library.

REQUIRED COURSE TEXTBOOK


REFERENCE TEXTS


READING LIST  (* indicates optional reading)

Course Preview: Innovative Public Finance via Social Impact Bonds

Thursday, 1 September 2016


IN-CLASS CASE: RIKERS ISLAND SOCIAL IMPACT BOND

I. The Role and Size of the Public Sector

A. Economic Rationale for Public Sector Interventions: Market Efficiency and Market Failure, Distributional Concerns

Tuesday, 6 September 2016


Thursday, 8 September 2016


IN-CLASS CASE: MARKET FAILURES, AVIATION SECURITY, AND 9/11

POLICY MEMO #1 ASSIGNMENT (INTERPRETING THE U.S. BUDGET)
POSTED AND DISTRIBUTED [HKS Class Page]
Friday, 9 September 2016

First review session (attendance optional).

B. The Nature, Magnitude, and Quality of Public Sector Interventions:
   Defining Responsibilities and Measuring the Size of the Public Sector;
   Government Failure

C. Understanding a Nation’s Fiscal Architecture:
   Building Appropriate Revenue and Expenditure Systems

Tuesday, 13 September 2016

Joseph E. Stiglitz and Jay K. Rosengard, “Defining Public Sector Responsibilities” and
“Measuring Public Sector Size,” Chapters 1 and 2 in Economics of the Public Sector, Fourth

*Jay K. Rosengard, “Folly or Foresight: Strategic Options for Fiscal Policy in East Timor,” in
Hal Hill and João M. Saldanha, eds., East Timor: Development Challenges for the World’s
Newest Nation (Singapore: Institute of Southeast Asian Studies, 2001), pp. 52-60. [HKS Class
Page]

[http://www.cbc.ca/news/background/poweroutage/explained.html]

Neela Banerjee and David Firestone, “New Kind of Electricity Market Strains Old Wires
beyond-limits.html?scp=1&sq=new%20kind%20of%20electricity&st=cse]

[HKS Class Page]

[http://online.wsj.com/article/0,,SB10611720588151200.00.html?mod=opinion%255Fmain%255Fcommentaries]


in the United States and Canada: Causes and Recommendations, April 2004
[https://reports.energy.gov/BlackoutFinal-Web.pdf]

*Sally Wallace, Fiscal Architecture and the Analysis of Public Expenditure Needs and Revenue
Capacity, International Studies Program Working Paper 01-11 (Atlanta: Andrew Young School
of Policy Studies, Georgia State University, April 2003).

IN-CLASS CASE: GOVT FAILURE AND THE 2003 N.E. ELECTRICITY BLACKOUT

Thursday, 15 September 2016

*Paolo de Renzio and Harika Masud, “Measuring and Promoting Budget Transparency: The
Open Budget Index as a Research and Advocacy Tool,” Governance: An International Journal
II. Public Expenditure Policy

A. Megaprojects

Tuesday, 20 September 2016

“The Central/Artery/Tunnel Project – The Big Dig,” Massachusetts Department of Transportation Web Site. [http://www.massdot.state.ma.us/highway/TheBigDig.aspx]


*David Luberoff and Alan Altshuler, Boston’s Central Artery/Third Harbor Crossing Project, HKS Case Nos. CR1-96-1366.0 and CR1-96-1366.1. [HKS Class Page]

IN-CLASS CASE: THE BIG DIG
B. Government Social Protection Policies

Thursday, 22 September 2016


IN-CLASS CASES: WELFARE REFORM IN THE UNITED STATES AND BOLSA FAMILIA CONDITIONAL CASH TRANSFER PROGRAM IN BRAZIL

Tuesday, 27 September 2016


*David Besanko and Saahil Malik, Reforming Social Security Around the World, Kellogg Case No. KEL493. [HKS Class Page]


IN-CLASS CASE: SOCIAL SECURITY REFORM IN THE UNITED STATES

POLICY MEMO #2 ASSIGNMENT (WATER & WASTEWATER PRIVATIZATION IN CANCUN, MEXICO) DISTRIBUTED

Gustavo Merino-Jarez and Carolina Gutierrez de Taliercio, Cancun, Mexico: Water and Wastewater Privatization, HKS Case Nos. 1593.0 and HKS Case Sequel No. 1593.1. [HKS Class Page]

Thursday, 29 September 2016

SIBOS 2017 – No Class

Tuesday, 4 October 2016

Rosh Hashana – No Class
C. Public Sector Production & Provision, Private Sector Participation/Public-Private Partnerships in Production & Provision (PSP/PPP); Social Entrepreneurship

Thursday, 6 October 2016


IN-CLASS CASE: WATER & WASTEWATER PRIVATIZATION IN CANCUN, MEXICO

POLICY MEMO #2 ASSIGNMENT (WATER & WASTEWATER PRIVATIZATION IN CANCUN, MEXICO) DUE AT BEGINNING OF CLASS

Tuesday, 11 October 2016


Love Grain Web Site. [http://lovegrain.co/]

*Brigitte Hoogendoorn, Enrico Pennings, and Roy Thurik, A Conceptual Overview of What We Know About Social Entrepreneurship (Zoetermeer: EIM, July 2011). [HKS Class Page]

IN-CLASS CASES: SINGAPORE GOVERNMENT-LINKED ENTERPRISES; LOVE GRAIN

III. Public Resource Mobilization

*Useful taxation web links [can be accessed at URLs noted below]

1) IMF Fiscal Affairs Department

2) OECD Centre for Tax Policy and Administration
   http://www.oecd.org/statistics/ (Revenue Statistics)
   http://www.oecd-ilibrary.org/taxation/books (Taxation Studies)

3) United States Internal Revenue Service
   www.irs.gov (Home Page)

4) Commonwealth of Massachusetts Department of Revenue
   http://www.mass.gov/?pageID=dorhomepage&L=1&L0=Home&sid=Ador (Home Page)

5) City of Cambridge Finance Department
   http://www.cambridgema.gov/finance.aspx (Home Page)
A. Economics of Taxation

Thursday, 13 October 2016


B. Taxation of Income and Wealth

Tuesday, 18 October 2016


IN-CLASS EXERCISE: COMPLETION OF FEDERAL AND MASSACHUSETTS PERSONAL INCOME TAX RETURNS
Thursday, 20 October 2016


*Robert C. Pozen and Eric Lonstein, Legislative Choices for U.S. Corporate Tax Reform, HBS Case No. 9-314-090. [HKS Class Page]

*George Mattingly and Mary Margaret Frank, Taxation in a Global Economy, University of Virginia Darden School Foundation Technical Note No. UV 5244. [HKS Class Page]


IN-CLASS CASE: REFORM OF THE U.S. CORPORATE INCOME TAX

Tuesday, 25 October 2016


IN-CLASS CASES: INDONESIA PROPERTY TAX REFORM; CALIFORNIA PROPERTY TAX REVOLT (PROPOSITION 13)

C. **Taxation of Consumption**

Thursday, 27 October 2016


*Glenn P. Jenkins and Mostafa Shahee, Evaluation of the Progressivity of the Value Added Tax in Developing Countries*, Draft Paper, August 2014. [HKS Class Page]


*Donald Bruce, William F. Fox, and LeAnn Luna, State and Local Sales Tax Revenue Losses from Electronic Commerce* (Knoxville: University of Tennessee, April 13, 2009). [http://cber.utk.edu/eecom/eccom0409.pdf]

POLICY BRIEF GUIDELINES DISTRIBUTED

Tuesday, 1 November 2016


IN-CLASS CASE: TAXATION OF ALCOHOL IN THAILAND
D. Taxation and the Environment; Taxation and Natural Resources

Thursday, 3 November 2016


POLICY BRIEF TOPICS DUE AT BEGINNING OF CLASS

Tuesday, 8 November 2016


E. Tax Incentives

Thursday, 10 November 2016

Howard Husock, *Seeking Neighborhood Revitalization in Philadelphia: Using Tax Credits to Link the Private and Non-Profit Sectors*, HKS Case No. C16-00-1578. [HKS Class Page]


IN-CLASS CASE: NEIGHBORHOOD REVITALIZATION IN PHILADELPHIA

POLICY MEMO #3 ASSIGNMENT (FINANCING PUBLIC TRANSPORTATION IN PHILADELPHIA) DISTRIBUTED
Pamela Varley for José Gomez-Ibañez and Jay K. Rosengard, The Quest for Sustainable Public Transit Funding: SEPTA’s 2013 Capital Budget Crisis, HKS Case No. 2047.0, October 7, 2015. [HKS Class Page]

F. Tax Compliance and Enforcement; Tax Reform

Tuesday, 15 November 2016

Robert Klitgaard, Internal and External Corruption in the Philippines’ Tax System (A) and (B), HKS Case Nos. C15-86-674 and C15-86-675. [HKS Class Page]

Amy C. Edmondson and Frances X. Frei, Transformation at the IRS, HBS Case No.9-603-010. [HKS Class Page]


**IN-CLASS FILM CLIP: “A TAXING WOMAN”**

**IN-CLASS CASES: THE BUREAU OF INTERNAL REVENUE (PHILIPPINES) and THE INTERNAL REVENUE SERVICE (UNITED STATES)**

**G. User Charges**

**Thursday, 17 November 2016**


**IN-CLASS CASE: FINANCING PUBLIC TRANSPORTATION IN PHILADELPHIA**

**POLICY MEMO #3 (TRANSP. IN PHILADELPHIA) DUE AT BEGINNING OF CLASS**

**IV. Intergovernmental Fiscal Relations and Local Government Finance**

**A. Fiscal Federalism and Fiscal Decentralization**

**Tuesday, 22 November 2016**


IN-CLASS FILM CLIP: “JERRY MAGUIRE”

Thursday, 24 November 2016

Thanksgiving – No Class.

**B. Resource Transfers and Own Source Revenue**

Tuesday, 29 November 2016


IN-CLASS CASE: INDONESIA’S “BIG BANG” DECENTRALIZATION

**C. Local Government Debt Financing**

Thursday, 1 December 2016

Peter Kiernan, *The New York City Crisis*, HKS Case No. C16-81-400. [HKS Class Page]

*Paul M. Healy, *The City of New York*, HBS Case No. 9-198-030. [HKS Class Page]


IN-CLASS CASES: NEW YORK CITY CRISIS; U.S. STATE AND LOCAL FISCAL CRISIS

Friday, 9 December 2016

POLICY BRIEFS DUE BY 5:00 P.M.