

PUBL/POLC 6312 Public Finance

Mondays, 5:30–8:30 PM, Room: M115
Zoom ID: 7919619091, Passcode: 021987
University of Houston
Master of Public Administration Program

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Instructor

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Course Description

This hybrid course provides an overview of the economic rationale behind government fiscal decisions as applied in public administration and public policy. To accomplish this, this course introduces basic economic theories regarding the role of government in the market system, reveals the methods of solving public problems and conflicts over fiscal resource allocation, and reviews issues related to how government finances various by different public policy programs.

In the first part of the course, we will discuss the foundations of public finance, focusing on the role of government in the economy. In the second part of the course, we will use both positivist and normative points of views to study the rationale behind decisions in resource allocation. The focus will be on fiscal decisions in the public sector, regarding the primary sources of government revenue and various forms of budgetary expenditures. The tools of public finance will be covered in the third part of the course, whereby we focus on assessing different designs of various public finance tools, how public authorities use these tools to achieve desirable effects and to avoid undesirable consequence. In the fourth part of the course, we will complete our examination of the multi-level government finance in the context of federalism.

Overall, this course combines theory in the textbook and examples of various public finance policies 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 and public policy analysis.

Learning Objectives

1. This course provides students with numerous economic theories and concepts. Through the readings and lectures, students should become familiar with major public finance theories and concepts.
2. Students will gain a better understanding of the importance of public finance to the practice of public management and public policy analysis.
3. Students will gain critical thinking skills and be able to analyze government fiscal decisions.
4. Students will learn how to evaluate the effects of various public finance decisions based on criteria such as efficiency, equity, and effectiveness.
5. Students will gain budget analysis skills by accessing, evaluating, and analyzing various government public finance data sources.
6. Students will learn how to articulate and apply a public service perspective in the context of recommending/making fiscal decisions.

Required Readings

1. **(Required)** Arye L. Hillman. 2019. *Public Finance and Public Policy: Responsibilities and Limitations of Government*. Third Edition. Cambridge University Press (hereafter, **Hillman 2019**). This is the main textbook of our class, which offers a political economy perspective of public finance. Comparative policy examples in different countries are used to give an emphasis on importance and paradox of bureaucracy and democracy. This book also focuses on the public value perspective.
2. **(Optional)** Jonathan Gruber. 2019. *Public Finance and Public Policy*. Sixth Edition, Macmillan Learning. I list this book as a recommended text book if you are looking for more economic perspectives on public finance.
3. Additional required readings listed for weekly topics. All additional readings can be accessed through the Blackboard Learn course webpage.

Course Requirements

1. Active participation in class (in-person and online synchronous sessions).
2. Read the assigned readings prior to each class meeting.
3. Discussion Leader. Each student will take turns to serve as a discussion leader, who will summarize the required readings and make a short presentation of the required readings to facilitate in-class discussions.
4. Budget Analysis Assignments. There will be three take-home budget analysis assignments throughout the semester, which are designed to allow students to explore existing government public finance data, and gain knowledge by analyzing government budget and fiscal policies. We will use the in-person sessions to learn relevant concepts and explore relevant datasets for

the budget analysis assignments. Review of budget analysis assignments will be conducted in class after written comments and grades are returned to students.

5. Final Exam. The final exam will be a take-home written exam during the final exam week. Students will have one week to finish the essay exam. The written exam will include short essay questions covering important concepts we learn throughout the semester, and budget analysis questions based on topics covered throughout the semester. Blackboard Learn will be used to distribute exam questions and to accept submissions.

Grading

1. Participation, 10%
2. Discussion Leader, 15%
3. Budget analysis assignments, 45%
4. Final exam, 30%
5. Final Grades
A = 100-94 (Excellent)
A- = 93-90
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

High ethical standards are critical to the integrity of any institution, and bear directly on the ultimate value of conferred degrees. All UH community members are expected to contribute to an atmosphere of the highest possible ethical standards. Maintaining such an atmosphere requires that any instances of academic dishonesty be recognized and addressed. The UH Academic Honesty Policy is designed to handle those instances with fairness to all parties involved: the students, the instructors, and the University itself. All students and faculty of the University of Houston are responsible for being familiar with this policy. Students are expected to adhere to the UH Academic Honesty Policy. Cheating or plagiarism in course assignments and the final exam will lead to a grade of F.

Presence in Class

If you are experiencing any COVID-19 symptoms that are not clearly related to a pre-existing medical condition, do not come to class. Please see Student Protocols for what to do if you

experience symptoms and Potential Exposure to Coronavirus for what to do if you have potentially been exposed to COVID-19. Consult the (select: Undergraduate Excused Absence Policy or Graduate Excused Absence Policy) for information regarding excused absences due to medical reasons.

COVID-19 Information

Students are encouraged to visit the University's COVID-19 website for important information including diagnosis and symptom protocols, on-campus testing, and vaccine information. Please check the website throughout the semester for updates.

Vaccinations

Data suggests that vaccination remains the best intervention for reliable protection against COVID-19. Students are asked to familiarize themselves with pertinent vaccine information and to consult with their health care provider. The University strongly encourages all students, faculty and staff to be vaccinated.

Excused Absence Policy

Regular class attendance, participation, and engagement in coursework are important contributors to student success. Absences may be excused as provided in the University of Houston Undergraduate Excused Absence Policy and Graduate Excused Absence Policy for reasons including: medical illness of student or close relative, death of a close family member, legal or government proceeding that a student is obligated to attend, recognized professional and educational activities where the student is presenting, and University-sponsored activity or athletic competition. Under these policies, students with excused absences will be provided with an opportunity to make up any quiz, exam or other work that contributes to the course grade or a satisfactory alternative. Please read the full policy for details regarding reasons for excused absences, the approval process, and extended absences. Additional policies address absences related to military service, religious holy days, pregnancy and related conditions, and disability.

Reasonable Academic Adjustments and Auxiliary Aids

The University of Houston complies with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, pertaining to the provision of reasonable academic adjustments/auxiliary aids for disabled students. In accordance with Section 504 and ADA guidelines, UH strives to provide reasonable academic adjustments/auxiliary aids to students who request and require them. If you believe that you have a disability requiring an academic adjustments/auxiliary aid, please contact the Justin Dart Jr. Student Accessibility Center (formerly the Justin Dart, Jr. Center for Students with DisABILITIES).

Recording of Class

Students may not record all or part of class, livestream all or part of class, or make/distribute screen captures, without advanced written consent of the instructor. If you have or think you may have a disability such that you need to record class-related activities, please contact the Justin Dart, Jr.

Student Accessibility Center. If you have an accommodation to record class-related activities, those recordings may not be shared with any other student, whether in this course or not, or with any other person or on any other platform. Classes may be recorded by the instructor. Students may use instructor's recordings for their own studying and notetaking. Instructor's recordings are not authorized to be shared with anyone without the prior written approval of the instructor. Failure to comply with requirements regarding recordings will result in a disciplinary referral to the Dean of Students Office and may result in disciplinary action.

Syllabus Changes

Due to the changing nature of the COVID-19 pandemic, please note that the instructor may need to make modifications to the course syllabus and may do so at any time. Notice of such changes will be announced as quickly as possible through (specify how students will be notified of changes).

Late Assignment Submission

Late work will be penalized by one letter grade for each day after the deadline. For example, an A-paper turned in one day late will become a B-paper. Late work would only be accepted without grade-penalty if the student has university-accepted excuses.

Course Calendar

This hybrid course includes in-person meeting sessions and online synchronous Zoom sessions, as listed in the following weekly course calendar.

PART I. FOUNDATIONS OF PUBLIC FINANCE

Week 1 (August 22): Course Overview, In-Person Session

- No required readings.

Week 2 (August 29): Public Sector Economics, Online Zoom Session

Topics and Readings

- Market and government: Hillman 2019, Chapters 1 and 2
- History of the U.S. Public Finance:
 - Sylla, Richard, John B. Legler and John J. Wallis. 1987. "Banks and State Public Finance in the New Republic: The United States, 1790-1860." *The Journal of Economic History*, 47(2): 391-403.
 - Wallis, John J. 2000. "American Government Finance in the Long Run: 1970 to 1990." *Journal of Economic Perspectives*, 14(1): 61-82.
- Current event discussion: The Inflation Reduction Act: Penn Wharton Budget Model (PWBM) Brief: "Senate Passed Inflation Reduction Act: Estimates of Budgetary and Macroeconomic Effects."

PART II. MARKET ECONOMY AND GOVERNMENT EFFECTIVENESS

Week 3 (September 5): Labor Day Holiday, no class.

Week 4 (September 12): Government Responsibilities and Efficiency, Online Zoom Session
Topics and Readings

- Public goods, social costs and social benefits: Hillman 2019, Chapters 3 and 4.
- 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.
- Public goods and private resources: Ambrosius, Christian. 2019. “Government Reactions to Private Substitutes for Public Goods: Remittances and the Crowding-out of Public Finance.” *Journal of Comparative Economics*, 47(2): 396-415.
- Distribute Assignment 1: Reading and Analyzing Government Budget Data, due by September 27 (midnight) on Blackboard.

Week 5 (September 19): Individual Choices, Information, and Efficiency, In-Person Session
Topics and Readings

- Choices, Information, and Market Failure: Hillman 2019, Chapters 5 and 6.
- Co-Production as a solution: Hong, Sounman and Jungmin Ryu. 2019. “Crowdfunding Public Projects: Collaborative Governance for Achieving Citizen Co-funding of Public Goods.” 36(1): 145-153.
- Medicare finance and rent-seeking behavior: Fang, Hanming and Qing Gong. 2017. “Detecting Potential Overbilling in Medicare Reimbursement via Hours Worked.” *American Economics Review*, 107(2): 562-591.

Week 6 (September 26): Public Finance, Social Equity and Inclusive Growth, Online Zoom Session
Topics and Readings

- Limitations of government: Hillman 2019, Chapters 11, 13, and 14.
- Social Equity and Public Finance: Gale and Brown 2013. “Tax Reform for Growth, Equity, and Revenue.” *Public Finance Review*, 41(6): 721-754.
- Pynes, Joan E. and Grant E. Rissler. 2017. “Social Equity in the Trump Era: What Can Local Public Administrators Do to Improve Social Equity for Their Residents and Community in the Face of Federal Cuts?” *State and Local Government Review*, 49(1): 48-59.
- Current Event Discussion: The distributional effects of the Inflation Reduction Act (Whitehouse policy briefs)

PART III. TOOLS OF PUBLIC FINANCE

Week 7 (October 3): Taxation, In-Person Session
Topics and Readings

- Overview of taxation: Hillman 2019, Chapter 8.
- Corporate Tax: Williams and Collins 1997. “The Political Economy of Corporate Taxation.” *American Journal of Political Science*, 41(1): 208-244.
- Tax innovation: Guo and Frank 2015. “Portability, an Innovative Property Tax Relief: Whose Time Hasn’t Come.” *Journal of Public Budgeting, Accounting & Financial Management*, 27(2): 153-178.
- Current Event Discussion: Center on Budget and Policy Priorities Brief: Corporate Rate Increase Would Make Tax Fairer
- Review Assignment 1.
- Distribute Assignment 2: Tax Policy Variations Across the American States, due by October 18 (midnight) on Blackboard.

Week 8 (October 10): Social Insurance, Online Zoom Session

Topics and Readings

- Social justice and insurance: Hillman 2019, Chapter 7.
- Health insurance: Finkelstein 2007. “The Aggregated Effects of Health Insurance: Evidence from the Introduction of Medicare.” *The Quarterly Journal of Economics*, 122(1): 1-37.
- UI and Job Search: Baker, Scott R. and Andrey Fradkin. 2017. “The Impact of Unemployment Insurance on Job Search: Evidence from Google Search Data.” *Review of Economics and Statistics*, 99(5):756-768.
- Current Event Discussion: Policy options to sustain Medicare for the future (KFF briefs).

Week 9 (October 17): Government Revenue and Spending, In-Person Session

Topics and Readings

- National policy reform and state spending: Sommers, Benjamin D. and Jonathan Gruber. 2018. “Federal Funding Insulated State Budgets From Increased Spending Related To Medicaid Expansion..” *Health Affairs*, 36(5): 938-944.
- COVID-19 pandemic and public finance: Clemens, Jeffrey and Stan Veuger. 2020. “Implications of the COVID-19 Pandemic for State Government Tax Revenues.” *National Tax Journal*, 73(3): 619-644.
- Legislatures and spending: Owings, Stephanie and Rainald Borck. 2000. “Legislative Professionalism and Government Spending: Do Citizen Legislators Really Spend Less?” *Public Finance Review*, 28(3): 210-225.
- Current Event: Subsidies for Electric Vehicles:
 - Government subsidies and social equity: Caulfield, Brain, Dylan Furszyfer, Agnieszka Stefaniec, and Aoife Foley. 2022. “Measuring the equity impacts of government subsidies for electric vehicles.” *Energy*, 248 (1): 123588.

Week 10 (October 24): Fiscal Rules and Regulations, Online Zoom Session

Topics and Readings

- TELs: Zhang, Pengju. 2018. “The Unintended Impact of Tax and Expenditure Limitations on the Use of Special Purpose Districts: The Politics of Circumvention.” *Economics of Governance*, 19(1): 21-50.
- Fiscal rules in economic recession: Hong, Sounman. 2015. “Fiscal Rules in Recessions: Evidence from the American States.” *Public Finance Review*, 43(4): 505-528.
- State fiscal responses to welfare reform: Chernick, Howard and Andrew Reschovsky 2003. “State Fiscal Responses to Welfare Reform during Recessions: Lessons for the Future.” *Public Budgeting & Finance*, 23(3): 3-21.
- Current Event Discussion: Special Districts: Last Week of John Oliver.
- Review Assignment 2
- Distribute Assignment 3: Analyzing Fiscal Rules and Fiscal Decentralization in the United States, due by November 8 (midnight) on Blackboard.

PART IV. FEDERALISM AND MULTI-LEVEL GOVERNMENT FINANCE

Week 11 (October 31): Fiscal Federalism and Decentralization, In-Person Session

Topics and Readings

- Fiscal decentralization:
 - Prohl, Silika and Friedrich Schneider 2009. “Does Decentralization Reduce Government Size? A Quantitative Study of the Decentralization Hypothesis.” *Public Finance Review*, 37(6): 639-664.
 - Shi, Yu et al. 2018. “Fiscal Decentralization and Capacity to Service Debt: Are they Tightly Linked?” *Public Finance and Management*, 18(2): 1-33.
- Local governments and economic development: Hou, Yilin. 2006. “Budgeting for Fiscal Stability Over the Business Cycle.” *Public Administration Review*, 66(5): 730-741.
- Decentralization and government borrowing: De Mello, Luiz R., Jr. 2001. “Fiscal Decentralization and Borrowing Cost: the Case of Local Government.” *Public Finance Review*, 29(2): 108-138.

Week 12 (November 7): Public-Private Partnership and Public Finance, Online Zoom Session

Topics and Readings

- Social Impact Bonds (SIB): Warner, Mildred E. 2013. “Private Finance for Public Goods: Social Impact Bonds.” *Journal of Economic Policy Reform*, 16(4): 303-319.
- Privatization and public-private partnership:
 - Warner, Mildred E. and Amir Hefetz 2008. “Managing Markets for Public Service: the Role of Mixed Public-Private Delivery of City Services.” *Public Administration Review*, 68(1): 155-166.
 - Yuan, Chen and Lang Yang. 2018. “Providing Public Services without Relying Heavily on Government Funding: How do Nonprofits Respond to Government Budget Cuts?” *American Review of Public Administration*, 49(6): 675-688.

Week 13 (November 14): Local Government and Public Finance, In-Person Session
Topics and Readings

- Municipal Bond Ratings: Palumbo, George and Mark P. Zaporowski 2012. “Determinants of Municipal Bond Ratings for General-Purpose Governments: An Empirical Analysis.” *Public Budgeting and Finance*, 32(2): 86-102.
- Special purpose governments:
 - Duncombe, William and Yilin 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, Samuel and Carl Schoedel 1997. “Special Districts, City Governments, and Infrastructure Spending in 105 U.S. Metropolitan Areas.” *Journal of Urban Affairs*, 19(1): 59-72.
- Alm, James and Trey Dronyk-Trosper. 2021. “What Drives Road Infrastructure Spending?” *Public Budgeting & Finance*, Online early version.
- Review Assignment 3.

Week 14 (November 21): Financing Urban Development, Online Zoom Session
Topics and Readings

- Tax Incremental Financing (TIF) Districts: Funderburg, Richard. 2019. “Regional Employment and Housing Impacts of Tax Increment Financing Districts.” *Regional Studies*, 53(6): 874-886.
- PPP and TIF: Bland, Robert and Michael Overton. 2016. “Assessing the Contributions of Collaborators in Public?Private Partnerships: Evidence From Tax Increment Financing.” *The American Review of Public Administration*, 46(4): 418-435.
- Financing Smart Cities: Blanck, Mery and Jose Luis DuarteRibeiro. 2021. “Smart cities financing system: An empirical modeling from the European context.” *Cities*, 116, Article 103268.

Week 15 (November 28): Public Housing and Urban Gentrification, In-Person Session
Topics and Readings

- Urban development and gentrification: Hyra, Derek. 2017. *Race, Class and the Politics in the Cappuccino City*. Chapter 1.
- Public Investment and urban gentrification: Zuk, Mirian et al. 2018. “Gentrification, Displacement, and the Role of Public Investment.” *Journal of Planning Literature*, 33(1): 31-44.
- Urban gentrification and minority representation: Casellas, Jason, and Markie McBrayer. 2019. “From Barrios to Condos: The Effects of Gentrification on Minority Descriptive Representation.” *Journal of Race, Ethnicity and Politics*, 4(1): 1-40.
- Wrap up and review for the final exam
- Distribute final exam questions

Week 16 (December 5) Final Exam due by December 7 (midnight) on Blackboard.