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 recent global economic crisis.

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 and Magnitude of Public Sector Interventions: Defining the Responsibilities and Measuring the Size of the Public Sector
   C. Understanding a Nation’s Fiscal Architecture: Building Appropriate Revenue and Expenditure Systems, Government Failure

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

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 → 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, 1:15-2:30 p.m., 1B/401.

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, 11 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 Alison Barron (617-496-2454, Alison_Barron@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, 3 September 2015**


**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, 8 September 2015**


**Thursday, 10 September 2015**


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

**POLICY MEMO #1 ASSIGNMENT (AMERICA’S BUDGET IMPASS) DISTRIBUTED**

Friday, 11 September 2014

First review session (attendance optional).

B. The Nature and Magnitude of Public Sector Interventions: Defining the Responsibilities and Measuring the Size of the Public Sector

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

Tuesday, 15 September 2015

[Rosh Hashana – No Class]

Thursday, 17 September 2015


IN-CLASS CASE: EAST TIMOR DURING TRANSITION TO INDEPENDENCE

Tuesday, 22 September 2015


*Open Budget Survey 2012. [http://survey.internationalbudget.org/#home]


*Participatory Budgeting Project. [http://www.participatorybudgeting.org/]

IN-CLASS CASE: AMERICA’S BUDGET IMPASS

POLICY MEMO #1 (AMERICA’S BUDGET IMPASS) DUE AT BEGINNING OF CLASS
II. Public Expenditure Policy

A. Megaprojects

Tuesday, 29 September 2015

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


*Alan Altshuler and David Luberoff, “Mega-Projects and Urban Theory” and “Urban Theory Redux,” Chapters Three and Eight in Mega-Projects: The Changing Politics of Urban Public
*David Luberoff and Alan Altschuler, *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, 1 October 2015**


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

**Tuesday, 6 October 2015**


*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]
C. Public Sector Production & Provision and Private Sector Participation/Public-Private Partnerships in Production & Provision (PSP/PPP)

Thursday, 8 October 2015


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


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

Tuesday, 13 October 2015


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

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

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*  
A. Economics of Taxation

Thursday, 15 October 2015


B. Taxation of Income and Wealth

Tuesday, 20 October 2015


IN-CLASS EXERCISE: COMPLETION OF FEDERAL AND MASSACHUSETTS PERSONAL INCOME TAX RETURNS
Thursday, 22 October 2015


*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, 27 October 2015


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

### C. Taxation of Consumption

**Thursday, 29 October 2015**


**POLICY BRIEF GUIDELINES DISTRIBUTED**

**Tuesday, 3 November 2015**


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

Thursday, 5 November 2015


POLICY BRIEF TOPICS DUE AT BEGINNING OF CLASS

Tuesday, 10 November 2015


E. Tax Incentives

Thursday, 12 November 2015

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]


F. Tax Compliance and Enforcement; Tax Reform

Tuesday, 17 November 2015

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, 19 November 2015


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, 24 November 2015


**IN-CLASS FILM CLIP: “JERRY MAGUIRE”**

**Thursday, 26 November 2015**

Thanksgiving – No Class.

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

**Tuesday, 1 December 2015**


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

**C. Local Government Debt Financing**

**Thursday, 3 December 2015**

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, 11 December 2015

POLICY BRIEFS DUE BY 5:00 P.M.