

**FINANCING GOVERNMENT SERVICES - PART B**  
*(The Context of Public Expenditures)*

**PUAD 631 – B**

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**Semester: Fall 2013**

**Room: Ward 113**

**Time (Days): 5:30 – 8:00 (T)**

**Supplemental Meeting Times:**

**Tuesday: 8:00 – 10:00, September 10**

**Tuesday: 5:30 – 8:00, November 26**

**Tuesday: 8:00 – 10:00, December 3**

**Dr. Daniel R. Mullins**

**Office: Ward 344**

**Hours: T & W 2:00 – 5:00**

**Phone: (office) 202-885-6117**

**(dept.) 202-885-2375**

**(home) 410-772-1237**

**E-mail: DMullins@American.edu**

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**COURSE DESCRIPTION**

This course is part of a two course sequence dealing with public revenue and expenditure systems (PUAD 631-A and PUAD 631-B). Both sessions can be taken for credit in all degree programs.

PUAD 631-B (this course) broadly focuses on the expenditure side of public sector resource allocation systems from both applied and theoretical perspectives. It includes some consideration of revenue instruments, but only within the direct context of providing for specific public services. Attention is directed toward the need and demand for public services, the execution of public policy objectives, and the spatial structure of governance and its implications for meeting diverse national, regional and sub-regional public needs and preferences. Topics will necessarily include all levels of governments. However, because of the illustrative richness of direct service delivery and the diverse population preferences and economic responses to be found at the sub-national level, much of the focus will be on the state and local public sector. While readings may concentrate on a particular level or state, much applicable to one is also applicable to other levels of the U.S. federal system. Efforts will be made to explore the uniqueness of each level as well as the more universal principles.

Specific topics of coverage include determinants of the demand for public spending and mechanisms and structures of demand articulation, intergovernmental fiscal relationships and roles in a federal system, the spatial economic dynamics of governance within polycentric urban areas (including the distribution of fiscal capacity and burdens), service delivery and production modes and characteristics, and implications of service pricing. Specific substantive spending (policy) areas considered include education, public assistance, housing, health care, old age security, transportation, economic development, environmental policy, crime, defense and foreign policy, and inequality.

Because the pursuit of public policy objectives is inextricably linked to and dependent on revenue, as a complement to material covered in this course, PUAD 631-A (usually offered during Fall semesters) focuses on the revenue side of this equation. Specifically, it focuses on

revenue instruments and their administration, general principles of public finance/economics and the behavioral response of the population to specific elements of the revenue system. It covers the economic functions and evaluative standards of revenue systems, the effect of taxation on economic growth, property taxation, consumption taxation, income taxation, business taxes, fee and charge revenue, lotteries and intergovernmental transfers.

The material covered in these courses should provide students with a basic understanding of public finance necessary for effective performance of public sector responsibilities and informed analyses of public issues. They provide fertile grounding for additional studies in the field. The economic and fiscal issues present in the finance function involve a complicated mix of behavioral effects which transcend the boundaries of the public sector and individual policy issues. The understanding students take from the material covered in this course sequence (and other finance related course work) should be applicable to a variety of environments and issue areas. Because either 631-A or 631-B satisfy a core requirement for the Master of Public Policy degree, we will strive to be more analytic than administrative in our orientation. However, because much of the substance of policy effects emerges from administration, the "policy analytic" dimension is not separable from administration. The above notwithstanding, either offering of this course is also a requirement for the Graduate Certificate in Public Financial Management and satisfies the finance requirement of the MPA, where students should find this combined analytic and administrative treatment equally important.

## ***PHILOSOPHY***

In keeping with a general philosophy of graduate education, it is the intention that students become pro-actively engaged in the instructional process to the maximum extent possible. As such students share a large part of the responsibility for making this experience successful. The course format will be comprised of a mix of lecture and discussion. In order to produce the desired result, advance preparation on the part of students and broad participation are essential. While students will *not* be formally evaluated on their performance in class, the instructor reserves the right to adjust the final grade for students whose contributions are particularly valuable or counter-productive.

## ***FORMAL STUDENT RESPONSIBILITIES AND GRADING POLICY***

Students will be evaluated based upon *two criteria* (i.e., work products): a *series* of take-home and in-class examination modules (the take-home components will be analytic essays, and the in-class component will be fixed response / short answer), and *one* analytic paper. As suggested above, students are expected to attend class regularly. While formal attendance will not be taken, given the nature of the course and the presentation of material outside of required readings, noticeable failures to attend class will result in a downward adjustment of a student's final course grade.

*Mid-Session Mini Examination Modules/Analytic Essays.* As the take-home component of exam modules, students will be required to craft type-written analyses of cases and policy issues on a regular/periodic basis over the course of the semester. Some may require external research on the part of the student to complete. All will be analytic in nature and require students to integrate a variety of relevant concepts from course readings into their analysis. Collectively, these modules (combined with in-class examination components) will constitute 2/3 of the

student's final grade. The take-home analytic essays modules will be distributed periodically (as we work through topic areas) and students will generally have one or two weeks to complete each module (depending on module length). Topics covered will include public expenditure demand articulation and service provision/production, spatial governance structure, fiscal federalism and substantive topic areas such as education and transportation. The most essential element in these analyses is thorough, appropriate and informed application and synthesis of relevant course readings. As such, these modules/essays will resemble mini analytic papers targeted to a specific topic, grounded in course readings with appropriate references and citations to readings and external sources. The last of these take-home modules/essays will be due during the final examination period. They are to be completed by each student independently; they are *not* group assignments. In-class examination components will be given in conjunction with take-home modules periodically throughout the semester, with the last in-class component tentatively scheduled for the *December 10* final exam period.

*Required Paper.* In addition to the above examination modules, students will be responsible for independently preparing *one research paper*. This paper will constitute *1/3* of the final grade. This required paper will analyze an issue or question (or issues and questions) related to public expenditures and their context. Papers may focus on the fiscal implications of government structure, intergovernmental finance, service pricing, service delivery or any substantive spending area, with a focus on fiscal elements. It will be expected to be approximately 18 double spaced pages in length, well written, concise and well researched (appropriately drawing from and referencing academic sources). Students should seek advice from professor Mullins as to the specific topics for this papers. The due date for the paper is *November 26*.

*Submission Method & Timing.* Completed analytic essays and papers should be submitted in hard-copy (in-class) on the date specified. If submission by hard copy is not possible, I will accept submissions via a Blackboard attachment uploaded to the DropBox under the Assignments tab. However, submissions made to Blackboard must be in PDF form, as a single file and formatted as a finished paper (I will not collate or reformat material submitted) and the file must be clearly labeled to indicate what it contains. It is the responsibility of the student to assure that the file loads correctly and is not corrupted. **I do not accept papers or examination modules submitted via e-mail.** Students are graded as a cohort. This requires that examination modules and papers be received on time. Submissions received after the specified due date will receive a discounted grade.

*Academic Integrity.* Examination modules (analytic essays) and papers are to be based on the original efforts of individual students; these are not collaborative assignments. Papers are expected to meet appropriate academic standards regarding the originality of the work submitted. Failure to maintain this standard of originality and individuality will result in the grade of zero for the work in question and a possible failing grade for the course.

*Electronic Devices.* This course has joined a growing number in baring student use of electronic devices (at any time) inside the classroom. Computer and cell phone usage is not permissible. Use of any such device during class session will result in a request that the student leave the classroom and not return until the following course session. The only exceptions to this rule are in the event that the device is a documented requirement to counter a disability and for devices specifically designed for sound recording.

## ***REQUIRED TEXTS/READINGS***

*Required Texts.* There are *three* textbooks for this course. Two are required, one is optional. These are listed below. The required texts should be available for purchase at the American University book store.

Ronald. C. Fisher, State and Local Public Finance, Third Edition (South-Western College Publications, 2007). (*required.*)

Mark E. Rushefsky, Public Policy in the United States, 5<sup>th</sup> edition (Armonk, NY: M. E. Sharpe, 2013). (*required.*)

Joel Slemrod (ed.), Tax Policy in the Real World, (New York, NY: Cambridge University Press, 1999). (Text is *optional*. The articles contained within it are *required*. This text can be purchased via the AU bookstore. Students can also individually download and print all articles from it via ProQuest on the AU library website.)

*Supplemental Readings.* In addition to the above, the core readings also include a combination of selected journal articles and book chapters. While the required texts provide the basic structure and content of the course, the required supplemental reading is no less important to a full understanding of the subject matter by the student. These readings can be acquired via JSTOR or ProQuest, as indicated.

*Newspapers.* Students are also encouraged to keep abreast of current events pertaining to government finance and public expenditures. A good way of achieving this is by regularly reading a high quality national newspaper such as the *Wall Street Journal*, the *New York Times* or the *Washington Post*. By reading with an eye towards these issues, students should quickly become aware of the extent to which finance permeates virtually all aspects of the public agenda and public policy.

## ***OFFICE HOURS***

My office hours are as listed on the first page of the course syllabus. I will make a diligent effort to be consistently available during these time periods. If you are unable to reach me at these times, I encourage you to seek me out at other times during the week. In general, an appointment is not necessary, however, please be aware that the periods immediately before class are somewhat problematic and I am forced to limit my accessibility at these times. I am also available for consultation immediately after class. Feel free to contact me by phone at any reasonable time or via e-mail.

## ***COURSE MEETING SCHEDULE***

National and international public service is an important mission of SPA and AU. This sometimes requires professors to reschedule course meetings or provide guest lecturers to cover necessary absences. I am actively involved in these activities and thus it may be necessary for me to be out of the country for periods during the semester working with foreign governments on issues including those covered in this course. I am currently participating as a member of World Bank project teams working on issues of intergovernmental finance and budgeting and public sector resource management restructuring in Croatia and Serbia, and am in the beginning phases of a training program for the Government of Suriname. While the timetable for these have not been finalized, I am likely to be out of the country for periods during this semester. Presently, a mission to Serbia at the end of September is in the planning stage. All efforts will be made to minimize any disruptions.

To assure that students receive full instructional hours, the Department of Public Administration and Policy has scheduled **supplemental meeting periods** for this course on the days and times indicated on the front banner of this syllabus. These dates will be used as necessary.

## **THE CONTEXT OF PUBLIC EXPENDITURES** *(The Dynamics of Spatial Economics)*

\*Note: Readings may be augmented.\*

### **Is Government Out-Of-Control? ... Trends and Explanations for Government Growth**

Fisher, ch.1 (pp. 3-24)

R. C. Fisher, "The Changing State-Local Fiscal Environment: A 25-Year Retrospective" (Sjoquist, ch. 2).

W. Baumol, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis," The American Economic Review (June 1967): 415-425. (JSTOR)

### **Why Government? ... Economic Principals and Foundations of the Role, Functions and Basis for Government Action**

Fisher, ch.1 (pp. 25-29)

Fisher, ch.2

G. Hardin, "The Tragedy of the Commons," Science, vol. 162 (December 13, 1968): 1243-48. (JSTOR)

R. Coase, "The Problem of Social Costs," Journal of Law and Economics, vol. 3 (October 1960): 1-44.

\* R. Haveman, The Economics of the Public Sector, 2nd. ed. (John Wiley and Sons, 1976), ch. 2 & 3.

### **Allocative Efficiency? ... Mechanisms of Public Choice: Voting and Mobility**

Fisher, ch.3

Fisher, ch.5

D. R. Mullins, "Popular Processes and the Transformation of State and Local Government Finance (Sjoquist, ch 5).

K. E. Edmiston and W. F. Fox, "Prospects and Challenges for State and Local Government in a Digital World" (Sjoquist, ch. 7).

Tiebout, "A Pure Theory of Local Expenditures," Journal of Political Economy, vol. 64 (February, 1956): 416-424. (JSTOR)

### **Mix & Match for Conflicting Objectives? ... The Fiscal and Spatial Structure of State and Local Government**

Fisher, ch.6

T. J McGuire and D. L. Sjoquist, "Urban Sprawl and the Finances of State and Local Governments" (Sjoquist, ch. 10).

J. Margolis, "The Fiscal Problems of the Fragmented Metropolis" (ICMA, pp. 30-50)

M. J. White, "Self-Interest in the Suburbs: The Trend Toward No-Growth Zoning," Policy Analysis, vol. 4 (Spring, 1978): 185-203.

Joyce and Mullins, "The Changing Fiscal Structure of the State and Local Public Sector: The Impact of Tax and Expenditure Limitations," Public Administration Review, vol. 51 (May/June 1991). (ProQuest or ABI/Inform))

### **Do You Get What You Pay For? ... Demand for State and Local Public Services**

Fisher, ch. 4

S. Wallace, "Changing Times: Demographic and Economic Changes and State & Local Government Finances" (Sjoquist, ch. 2).

## **Provision, Production and Privatization? ... The Cost and Supply of State and Local Government Services**

Fisher, ch. 7

Bradford, Malt and Oates, "The Rising Cost of Local Public Services," National Tax Journal (June 1969): 185-202.

## **Do The Actions of Other Governments Matter? ... Intergovernmental Fiscal Issues (Fiscal Federalism)**

Fisher, ch.9

D. A. Kenton, "The Federal Government's Impact on State and Local Government Finances" (Sjoquist, ch. 6).

R. M. Bird, "Threading the Fiscal Labyrinth: Some Issues in Fiscal Decentralization" (Slemrod, 141-161), National Tax Journal 46 (1993) 2: 201, 21 pgs. (ProQuest)

E. M. Gramlich, "A Policymaker's Guide to Fiscal Decentralization" (Slemrod, 163-169), National Tax Journal 46 (1993) 2: 229, 7 pgs. (ProQuest)

W. E. Oates, "Fiscal Decentralization and Economic development" (Slemrod, 171-177), National Tax Journal 46 (1993) 2: 237, 7 pgs. (ProQuest)

\* W. Oates, "Fiscal Structure in the Federal System" (ICMA, pp. 51-73)

### **Shifting Sands ... Expenditure Responsibilities and Devolution**

J. M. Quigley and D. Rubinfeld, "Federalism and Reductions in the Federal Budget" (Slemrod, 179-192), National Tax Journal 49 (1996) 2: 289, 15 pgs. (ProQuest)

S. D. Gold, "Issues Raised by the New Federalism" (Slemrod, 193-207), National Tax Journal 49 (1996) 2: 273, 15 pgs. (ProQuest)

### **Helping Places v. Helping People ... Fiscal Equalization**

H. F. Ladd and J. Yinger, "The Case for Equalizing Aid" (Slemrod, 223-236), National Tax Journal 47 (1994) 1: 211, 14 pgs. (ProQuest)

W. H. Oakland, "Fiscal Equalization: An Empty Box" (Slemrod, 237-247), National Tax Journal 47 (1994) 1: 199, 11 pgs. (ProQuest)

## ***SUBSTANTIVE SPENDING AREAS***

### **Education as an Intergovernmental Endeavor**

Fisher, ch. 19

R. Rubenstein and L. O. Picus, "Politics, the Courts, and the Economy: Implications for the Future of School Financing" (Sjoquist, ch. 4).

A. Reschovsky, "Fiscal Equalization and School Finance" (Slemrod, 209-221), National Tax Journal 48 (1995) 2: 301, 14 pgs. (ProQuest)

Rushefsky, ch. 8

### **Providing for the Needy ... National and Intergovernmental Fiscal and Policy Issues**

Fisher, ch. 21

#### **Public Assistance**

Rushefsky, ch. 4

#### **Housing**

G. Galster, "Comparing Demand-Side and Supply-Side Housing Policies: Sub-Market and Spatial Perspectives," Housing Studies 12 (1997) 4: 561, 17 pgs. (ProQuest)

J. Yates and C. Whitehead, "In Defense of Greater Agnosticism: A Response to Glaster's Comparing Demand-Side and Supply-Side Housing Policies," Housing Studies 13 (1998) 3: 415, 9 pgs. (ProQuest)

H. F. Ladd and J. Ludwig, "Federal Housing Assistance, Residential Relocation, and Educational Opportunity: Evidence from Baltimore," Proceedings of the 104<sup>th</sup> Annual Meeting of the American Economic Association, 1997 The American Economic Review 87, 2:272-277. (JSTOR)

#### **Medical / Health Care**

Rushefsky, ch. 5

#### **Old Age Security**

Rushefsky, ch. 2, pp. 75 – 77, ch. 4, pp. 144 – 152.

### **Transportation ... Getting You Coming and Going**

Fisher, ch.8 (pricing)

Fisher, ch.20

W. Vickery, "Commentary: Some Neglected Opportunities for User Charges," in Research in Urban Policy, vol. 2 Part B (JAI Press, 1986), pp. 127-138.

### **Utilities ... An Electrifying Topic**

B. A. Seaman and W. B. Hildreth, "Deregulation of Utilities: A Challenge and an Opportunity for state and Local Tax Policy" (Sjoquist, ch. 8).



## **A Cure for What Ails You? ... or ... The Last Temptation? ... Economic Development**

Rushefsky, ch. 2 pp. 53-99.

Fisher, ch. 22

P. N. Courant, "How Would You Know a Good Economic Development Policy if You Tripped Over One? Hint: Don't Just Count Jobs" (Slemrod, 249-267), National Tax Journal 47 (1994) 4: 863, 19 pgs. (ProQuest)

T. J. Bartik, "Jobs, Productivity, and Local Economic Development: What Implications Does Economic Research Have for the Role of Government?" (Slemrod, 269-283), National Tax Journal 47 (1994) 4: 847, 15 pgs. (ProQuest)

## **Internalizing A Global Externality: Environmental Policy**

Rushefsky, ch. 6

T. A. Barthold, "Issues in the Design of Environmental Excise Taxes" (Brown & Moore, 27-35).

J. A. Swaney, "Market Versus Command and Control Environmental Policies," Journal of Economic Issues 26 (1992) 2: 623, 11 pgs. (ProQuest)

W. E. Oates, "Green Taxes: Can We Protect the Environment and Improve the Tax System at the Same Time," Southern Economics Journal 61 (1995) 4: 915, 8 pgs. (ProQuest)

## **Protection From Internal Aggression: Criminal Behavior and Criminal Justice**

Rushefsky, ch. 7

Z. Becsi, "Economics of Crime in the States," Economic Review - Federal Reserve Bank of Atlanta 84 (1999) 1: 38, 19 pgs. (ProQuest)

D. A. Anderson, "The Aggregate Burden of Crime," Journal of Law and Economics 42 (1999) 2: 611, 32 pgs. (ProQuest)

## **Protection From External Threat / Aggression: Defense and Foreign Policy**

Rushefsky, ch. 3

K. Lapidus, "National Security at What Price? The Economic Consequences of Military Spending," American Economist 37 (1993) 2: 68-77. (ProQuest)

G. Hooks, "The Rise of the Pentagon and U.S. State Building: The Defense Program as Industrial Policy," American Journal of Sociology 96 (1990) 2: 358-404. (JSTOR)

H. Davoodi, B. Clements, J. Schiff and P. Debaere "Military Spending, the Peace Dividend, and Fiscal Adjustment," IMF Staff Papers 48 (2001) 2: 290, 27 pgs.

K. Derouen, Jr. and U. Heo, "Defense Contracting and Domestic Politics," Political Research Quarterly 53 (2000) 4: 753, 17 pgs. (ProQuest)

L. Bartels, "Constituency Opinion and Congressional Policy Making: The Reagan Defense Build Up," The American Political Science Review 85 (1991) 2: 457-474. (JSTOR)

M. O'Hanlon, "Star Wars Strikes Back," Foreign Affairs 78 (Nov/Dec 1999) 6: 68, 15 pgs. (ProQuest)

S. Lambakis, "Space Weapons: Refuting the Critics," Policy Review Feb/Mar 2001, 105: 41, 11 pgs. (ProQuest)

## **Inequality: A Policy Problem?**

Rushefsky, ch. 9

Note: Readings with a "JSTOR" or "ProQuest" suffix are retrievable from these sources on-line via American University's library web site. They can be downloaded and printed. Readings indicated as "ICMA" are from J.R. Aronson and E. Schwartz, eds., Management Policies in Local Government Finance (International City Management Association 1987). Readings indicated with an "\*" are not required, though they are recommended.