

FINANCING GOVERNMENT SERVICES - PART A
(Revenue Systems)

PUAD 631.002

Semester: Fall 2013

Room: Ward 303

Time (Days): 5:30 – 8:00 (W)

Supplemental Meeting Times:

Wednesday: 8:00 – 10:00, September 11

Wednesday: 8:00 – 10:00, November 20

Wednesday: 5:30 – 8:30, December 11

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

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-A (this course) broadly focuses on the revenue side of public sector resource allocation systems from both applied and theoretical perspectives. Components considered include revenue instruments and their administration, and general principals of public finance/economics and spatial dynamics. Topics will include all levels of government (as they must in a federal system), however, because of the illustrative richness of the diversity and economic response to be found at the sub-national level, the focus will be the state and local public sector. While readings may concentrate on a particular level or state, much applicable to one level is, often without severe modification, 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. Specifically, we will cover 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.

Revenues are only meaningful, however, within the context of the need and demand for public expenditures and the execution of public policy objectives. Therefore, as a complement to material covered in this course, PUAD 631-B (usually offered during both Spring and Fall semesters) focuses on the expenditure side of this equation and is directed toward the demand for government services, the supporting spatial organization of government and specific expenditure policy in the areas of education, transportation, infrastructure, public safety, health and social support.

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. It should also 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 of 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 include 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 analytic criteria and individual revenue instruments/mechanisms. For the case/policy application component, 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 16 (Monday)* 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 revenue systems (and/or a particular revenue source). 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 paper. The due date for the paper is *December 4*.

Submission Method & Timing. Completed analytic essays and papers should ideally 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 barring 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 required for this course. These are listed below and 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).

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 at the AU book store. Students can also individually download and print all articles from it via ProQuest on the AU library website.)

David Brunori (ed.), The Future of State Taxation (Washington, D.C.: The Urban Institute Press, 1998).

Supplemental Readings. In addition to the above, the core readings also include a combination of selected book chapters and journal articles. 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, ProQuest or Blackboard.

Newspapers. Students are also encouraged to keep abreast of current events pertaining to government finance. 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 has 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.

READING SCHEDULE

(Note: assigned readings may be altered)

REVENUE SYSTEM: STRUCTURE, ANALYSIS AND ADMINISTRATION

(Who Collects What? Why? ... Revenue Systems By Level of Government)

Who Should Pay? How Much? ... Criteria for Evaluating Alternative Revenue Sources

Fisher, ch.12.

D. R. Mullins, "Local Fiscal Resources: The Basics of a Meaningful Local Resource Structure," in Managing Municipal Change, C. F. Bonser, ed. (Bloomington, IN: School of Public & Environmental Affairs, 1994), ch. 9.

R. C. Fisher, "The Changing State-Local Fiscal Environment: A 25 Year Retrospective" (Sjoquist, 9-29).

S. Wallace, "Changing Times: Demographics and Economic Changes and State and Local Government Finances" (Sjoquist, 30-59).

Yield, Equity & Incidence ... Who Shoulders the Burden? or How to Hit a moving Target!

A. J. Auerbach, "Public Finance in Theory and Practice" (Slemrod, 285-292). [yield & equity]

R. G. Hubbard, "On the Use of 'Distribution Tables' in the Tax Policy Process" (Slemrod, 293-303). [incidence]

A. Reschovsky, "The Progressivity of State Tax Systems" (Brunori, 161-190).

Efficiency ... If You Do That, Then I'll Do This ... or Tit-For-Tat

E. Engen & J. Skinner, "Taxation and Economic Growth" (Slemrod, 305-330). [macro efficiency]

J. Agell, P. Englund, & J. Sodersten, "Tax Reform of the Century - The Swedish Experiment" (Slemrod, 331-352). [efficiency]

A. J. Auerbach, "Measuring the Impact of Tax Reform" (Slemrod, 353-361). [efficiency]

Administrative Feasibility, Compliance and Optimal Taxation ... or "the Devil's in the Details!"

L. Kaplow, "How Tax Complexity and Enforcement Affect the Equity and Efficiency of the Income Tax" (Slemrod, 381-396). [administration]

J. Alm, "What is an 'Optimal' Tax System?" (Slemrod, 363-379). [optimal taxation/compliance]

Political Feasibility and Public Choice ... an Economists View?

R. G. Holcombe, "Tax Policy from a Public Choice Perspective" (Slemrod, 397-409). [political feasibility]

S. L. Winer & W. Hettich, "What is Missed if we Leave Out Collective Choice in the Analysis of Taxation" (Slemrod, 411-427). [public choice]

J. M. Poterba, "Public Finance and Public Choice" (Slemrod, 429-434). [public choice]

Why Tax Property? Should Grandma be Forced to Sell? ... Property and Wealth Based Taxation

Fisher, ch.13 (administration).

* Bell and Bowman, "Property Taxes" (GFOA, ch.6)

Fisher, ch.14 (evaluation).

D. R. Mullins, "Popular Processes and the Transformation of State and Local Government Finance," in David Sjoquist, ed., *State and Local Finances Under Pressure* (Elgar, 2003), ch. 5.

T. J. McGuire and D. L. Sjoquist, "Urban Sprawl and the Finances of State and Local Governments" (Sjoquist, 299-326).

Lowery, "Public Opinion, Fiscal Illusion and Tax Revolution: The Political Demise of the Property Tax"

J. M. Youngman, "Property, Taxes, and the Future of Property Taxes" (Brunori, 111-128).

S. M. Sheffrin, "The Future of the Property Tax: A Political Economy Perspective" (129-146).

O' Cleiracain, ch.3.

Are We What We Consume? ... Consumption Based Taxes

- Fisher, ch.15 (esp. pp. 392-409 - evaluation).
J. L. Mikesell, "The Future of American Sales and Use Taxation" (Brunori, 15-32).
W. F. Fox, "Can the State Sales Tax Survive a Future Like Its Past" (Brunori, 33-48).
W. Hellerstein, "Electronic Commerce and the Future of State Taxation" (Brunori, 207-224).
K. D. Edmiston and W. F. Fox, "Prospects and Challenges for State and Local Government in a Digital World" (Sjoquist, 179-221).
O'Cleireacain, ch.5 (pp. 124-132).

Do Resource In-Flows Measure Capacity? ... Income Based Taxation

- Fisher, ch.16 (esp. pp. 424-437)
D. Brunori, "State Personal Income Taxation in the Twenty-First Century" (Brunori, 191-206).
O'Cleireacain, ch.4
R. Goode, "The Economic Definition of Income," in Comprehensive Income Taxation, J. Pechman, ed. (The Brookings Institute, 1977): 1-30.

Taxing No One, Taxing Everyone? ... Business Taxes

- Fisher, ch.17
R. D. Pomp, "The Future of the State Corporate Income Tax: Reflections (and Confessions) of a Tax Lawyer" (Brunori, 49-72).
T. F. Pogue, "State and Local Business Taxation: Principles and Prospects" (Brunori, 89-110).
J. G. Gravelle, "The Corporate Income Tax: Economic Issues and Policy Options" (Slemrod, 15-25).
P. B. Sorensen, "Changing Views of the Corporate Income Tax" (Slemrod, 27-42).
O'Cleireacain, ch.5 (pp. 113-124)

Value Added Taxation ... The National Consumption Tax for the Rest of the World

- "Value Added Tax Issues for U.S. Tax Policymakers" (Rabin, Appendix D).
J. L. Mikesell, "The American Retail Sales Tax: Considerations on their Structure, Operations, and Potential as a Foundation for a Federal Sales Tax" (Slemrod, 43-59)
N. Murray, "Would Tax Evasion and Tax Avoidance Undermine a National Retail Sales Tax?" (Slemrod, 61-76).
*R. Hafer and M. Trebing, "The Value-Added Tax: A Review of the Issues," Federal Reserve Bank of St. Louis Review, vol. 62 (January 1980): 3-10.

Why Not Simply Charge? ... Revenue from Monopoly Charges, Pricing and Lotteries

- Fisher, ch.18
B. A. Seaman and W. B. Hildreth, "Deregulation of Utilities: A Challenge and an Opportunity for State and Local Tax Policy" (Sjoquist, 222-276).
K. Zorn, "User Charges and Fees" (GFOA, ch.8)
Fisher, ch.8 (pricing)
* L. Pierce & K. Rust, "Government Enterprises" (GFOA, ch.20)

Getting You Coming and Going ... Transportation as a Case Example

- W. Vickery, "Commentary: Some Neglected Opportunities for User Charges," in Research in Urban Policy, vol. 2 Part B (JAI Press, 1986), pp. 127-138.
Fisher, ch.20

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

Fisher, ch.9

D. A. Kenyon, "The Federal Government's Impact on State and Local Government Finances" (Sjoquist, 163-178).

R. M. Bird, "Threading the Fiscal Labyrinth: Some Issues in Fiscal Decentralization" (Slemrod, 141-161).

E. M. Gramlich, "A Policymaker's Guide to Fiscal Decentralization" (Slemrod, 163-169).

W. E. Oates, "Fiscal Decentralization and Economic development" (Slemrod, 171-177).

Shifting Sands ... Expenditure Responsibilities and Devolution

J. M. Quigley and D. Rubinfeld, "Federalism and Reductions in the Federal Budget" (Slemrod, 179-192).

S. D. Gold, "Issues Raised by the New Federalism" (Slemrod, 193-207).

Helping Places v. Helping People ... Fiscal Equalization

H. F. Ladd and J. Yinger, "The Case for Equalizing Aid" (Slemrod, 223-236).

W. H. Oakland, "Fiscal Equalization: An Empty Box" (Slemrod, 237-247).

O'Cleireacain, ch.7 & Epilogue

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

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

Fisher, ch.22

P. D. Enrich, "The Rise - and Perhaps the Fall - of Business Tax Incentives" (Brunori, 73-88).

P. N. Courant, "How Would You Know a Good Economic Development Policy if You Triped Over One? Hint: Don't Just Count Jobs" (Slemrod, 249-267).

T. J. Bartik, "Jobs, Productivity, and Local Economic Development: What Implications Does Economic Research Have for the Role of Government?" (Slemrod, 269-283).

O'Cleireacain, ch.2

Recent National Tax Reform Proposals ... or ... Are You Serious?

M. D. Ginsburg, "Life Under a Personal Consumption Tax: Some Thoughts on Working, Saving and Consuming in Nunn-Domenici's Tax World" (Slemrod, 77-94).

A. L. Feld, "Living With the Flat Tax" (Slemrod, 95-109).

H. Grubert and T. Scott Newlon, "The International Implications of Consumption Tax Proposals" (Slemrod, 111-139).

Concluding Observations

J. Alm, J. A. Holman and R. M. Neumann, "Globalization and State-Local Government Finances" (Sjoquist, 276-298).

J. Slemrod, "Professional Opinions About Tax Policy: 1994 and 1934" (Slemrod, 435-461).

M. Keen, "Peculiar Institutions: A British Perspective on Tax Policy in the United States" (Slemrod, 489-512).

Note: Readings indicated with an "*" are not required, though they are recommended. They provide added substantive context, discussion of additional issues, a slightly different orientation, an alternative presentation, or a more detailed discussion of issues covered in the required readings. Readings indicated as "GFOA" are from J. Petersen and D. Strachota, eds., Local Government Finance: Concepts and Practice (Government Finance Officers Association 1991). Those indicated as "ICMA" are from J.R. Aronson and E. Schwartz, eds., Management Policies in Local Government Finance (International City Management Association 1987) and those indicated as "Rabin" are from J. Rabin, ed., Handbook of Public Budgeting (Marcel Dekker 1992). Recommended readings and required readings outside of required text books will be provided to students.