

Vanderbilt University

Economics 254 Public Finance

Mr. Getz, Fall, 2002

Calhoun 204, 9:10 -102:00, MWF

Audience

Public Finance is the study of the economic issues arising from government revenue and expenditure programs. Our focus will be on the US federal government. We will use the tools of welfare economics to explore how changes in government might improve consumer welfare. Intermediate microeconomics is a prerequisite for this course. We will use indifference curves and isoquants to describe the influences of taxation, subsidies, and expenditures. This course is for upper level students of economics and public policy. Students will be expected to read ahead, speak engagingly in class, write concise essays, assume an active role in shaping their course, and support each other's efforts to understand the issues. Because the issues in this course are under active debate in the Congress, students will be expected to read a good newspaper and, in class and in essays, relate the economic theories to the current public discourse.

Book

Joseph E Stiglitz Economics of the Public Sector 3rd edition, (W. W. Norton, New York 2000) provides clear discussion of the concepts in the context of the US scene.

Other Readings (Keyed to date in syllabus)

The following supplementary readings apply the ideas in the course to current policy settings. Many add an international perspective

.
Sept 23 Mark Bovens and Stavros Zouridis, "From street-level to system-level bureaucracies: How information and communication technology is transforming administrative discretion and Constitutional Control," *Public Administration Review*; Washington; Mar/Apr 2002; pp. 174-84. (Available online at Proquest)

Oct 4 Carl Safina, "The World's Imperiled Fish," *Scientific American* Nov 1995, pp. 46-53. (on reserve)

A Myrick Freeman III, "Environmental Policy Since Earth Day I: What Have We Gained?" *Journal of Economic Perspectives* XVI #1, Winter 2002, pp. 125-46. (on reserve)

Oct 11 Uwe E. Reinhardt, "Health Care for the Aging Baby Boom: Lessons from Abroad" *Journal of Economic Perspectives* Spring 2000 pp. 71-83. (on reserve)

Oct 16 "Transformed? A Survey of the Defence Industry" *The Economist*, July 20, 20002, pp. 3-16. (optional purchase at Bookstore)

Oct 25 Thomas Palley, "Social Security: Prefunding is not the answer! Challenge XLV #2, Mar/Apr 2002. pp. 97-118. (on reserve)

Nov 15 Alan J. Auerbach and Joel Slemrod, "The Economic Effects of the Tax Reform of 1986," Journal of Economic Literature, XXXV June 1997 pp. 589-632. (in JSTOR)

Nov 20 Haroldene F. Wunder, "Tanzi (1987): A Retrospective". National Tax Journal LIV #1 Dec 2001, pp. 763-70. (On ProQuest)

Sources

Students will find additional sources helpful in the completion of projects. The Index produced by the Public Affairs Information Service (PAIS International) and EconLit may point to useful materials. The GPO Monthly Catalog of the Government Printing Office points to Government Documents. ProQuest Direct includes an index to newspaper articles and the Economist. These databases are in the electronic reference tools at the Heard Library's website. Librarians will help you learn to use these tools.

Searching the Internet for information may also prove useful. Here are Universal Resource Locators that may get you started. The Google Internet search engine often works well..

Searching on the title of an agency or a topic area may be effective. If you need help in learning to use the web, please let the instructor know or ask for help at the Library.

Here is a page with general links to government websites

<http://www.firstgov.gov>

The Federal Web Locator

<http://www.infoctr.edu/fwl/>

Federal Budget Information 2002 from OMB

<http://www.whitehouse.gov/omb/budget/index.html>

Congressional Record, Federal Register, GAO Reports

http://www.access.gpo.gov/su_docs/index.html

For statistical information, try

<http://www.fedstats.gov/>

Essays

Each team will write two essays. The first may be on (A) a policy arena involving externalities (B) defense, (C) Health Care or (D) Social Security. The second may be on (E) an issue in taxation or (F) the budget deficit and national debt. The last two topics have different due dates. The essays are described in detail below. Members of the class are encouraged to discuss their essays with the instructor and with each other as the projects develop. They may submit draft projects for comment two class meetings before the project is due. Projects submitted late will be downgraded. The essays are to be of six to eight pages in length plus tables and charts. Consult Econlit and PAIS (among other databases) to find source material. Ask for help at the Government Documents section of the Library.

The essays will be the work of two or three person teams, with one essay to be submitted for the team for a common grade. Learning to work successfully in teams is an important goal of these projects. All members of the team should sign the title page of the essay to signify that all are full

partners in the project. Do not sign until you have read the full essay with the contributions of all participants. Please send a separate note individually to the instructor (e-mail will suffice) assigning a rating and a word of comment for each other member of your team. Use this scale: one=little contribution, two=average, three=very good, four=outstanding, five= better than could be imagined. Those who shirk responsibility for their projects should understand that they will get a lower grade. Your first goal is to make sure that your partners are pleased with the intensity, originality, and importance of your contribution.

Discussion

Members of the class will discuss current news events concerning tax and spending issues. The initiative will be with the members of the class. We will expect that, from time to time, all members of the class will initiate discussion based on newspaper articles concerning issues in the course. Comment on issues mentioned by others is expected. Attendance is necessary for participation in the discussion.

Newspapers

Members of the class will be expected to read a national newspaper with good coverage of issues in the Federal government. The Wall Street Journal, the New York Times, the Christian Science Monitor, and the Washington Post are good choices. These are available in the Library and by subscription.

News stories about tax and spending issues in the federal government will be the basis for class discussion. At the beginning of the course, the discussion will be relatively descriptive. As the course progresses, the discussion should become deeper with more thoughtful use of economic theory. Of particular significance will be when members of the class use economic theory to take exception with a point of view expressed in a newspaper story. You may hand in suitable newspaper clippings (or photocopies) with your name attached.

Formal Requirements

Two Essays, 15 points each	30 points
Class Discussion & Team Work	10 points
Two take home exercises, 8 points	20 points
One in-class examination	15 points
Final Examination, 3 pm Sat April 26	25 points

The distribution of grades in the course will reflect the quality of individual work. Numeric grades will be used until the end of the course. Imagination, originality, and critical assessment of current public debate of the issues matter

Honor Code

The honor code applies to this course. Each student is to perform his or her own work and accurately cite all source materials used in class and projects. Members of the class should work together, read drafts of each other’s projects, and share ideas. .

About the Instructor

I am Malcolm Getz. I have taught public finance since 1970 and have been on the faculty at Vanderbilt since 1973. I earned a BA in economics at Williams College in 1967 and a Ph.D. at Yale in 1973. My dissertation concerned Atlanta's transit system. I wrote a book about fire departments and another about public libraries. In 1991, I wrote a part of a book (with others) about higher education. In 1997, I wrote a book about the market for veterinary medicine. All of these studies use the concepts of public finance. From 1985 to 1994, I was Associate Provost. Once or twice during the semester I may miss a class due to participation in a conference or to meet other professional obligations. These will be announced in advance. My office is Calhoun 406, call 322-3425. I am available in my office from 10:10 to 11 AM most days and by appointment. My e-mail address is Malcolm.Getz@Vanderbilt.edu. My home telephone is 356-5601, please call before 10 PM or after 6:30 AM. Web to:<http://www.vanderbilt.edu/Econ/faculty/Getz/MGetz.html>.

Take home exercise #1 due Wednesday, October 2

Exercise on the role of government in the economy.

Take home exercise #2 Due Friday, October 18

Cost Benefit Analysis.

Essay A due Friday October 25, Team Project: Choose one of four topics.

#1 Externality

Discuss an economic problem involving a significant externality. Examples are the ocean fishery, water quality, air quality, noise, and global warming. The essay should advise a senator about the nature of the problem (What is the externality? How important is it?), about current policies (what are they and how well do they work?), and about proposed changes in policies.

#2 Defense

The Economist's "Survey of the Defence Industry" (July 20, 2002) raises a number of questions about American defense policy. Your essay should advise a senator on one or more dimensions of the debate. An essay might consider the nature of threats and how to counter them, the nature of competition and foreign trade in weapons production, the positive and negative role of political forces in shaping defense spending. The "Survey" emphasizes the role of digital technologies throughout and so an essay should consider them.

#3 Medical

Write an essay critiquing proposals to reform Medicare and medical services for the poor, giving counsel to a senator on the issues. Chapter 12 of Stiglitz and the symposium in the Spring 2000 Journal of Economic Perspectives are starting points. See also "Second Class Medicine" in Consumer Reports, September 2000 pp. 42-51.

Why should government be involved in financing medical services? What is the government role now in the US and how does it compare to other countries?

What are the main deficiencies in how government supports medical services in the US now?

What are the major ideas for changing how government organizes and finances medical services? How do the Republicans and Democrats differ on this issue? Who wins and who loses with each major reform idea? How would a given reform affect the rich and the poor?

#4 Social Security

Is the Social Security public pension program financial sound? If not, what policies changes

might you recommend to your Senator? Here is one possible source.

Henry J. Aaron and John B. Shoven, *Should the United States Privatize Social Security?* (Cambridge: MIT Press, 1999) John Shoven, "Two Tiers" pp. 1 – 53, Henry Aaron, "Tune-up," pp. 55-112. (Available at net library)

Mid-term Examination Wednesday, November 6

Essay B Income Taxation due Monday, December 2 Team Project

Each team will choose an issue in the reform of the Personal Income Tax (or a related tax) and write an essay, describing the issue, evaluating possible changes, and drawing appropriate conclusions. The essay should identify which groups will favor and which will oppose particular changes. Write as though you are briefing a Presidential candidate. Here is a list of issues. Use Stiglitz as a starting point and seek such additional information as necessary. Use of appropriate microeconomic analysis is necessary. You should search EconLit and PAIS for books and articles relevant to your topic.

Here are books on reserve that may be useful:

Paul Krugman, *Fuzzy math: The essential guide to the Bush tax plan* New York and London: Norton, 2001, pages 128.

Henry J. Aaron & Robert D. Reischauer, ed. *Setting National Priorities: Budget Choices for the Next* (Brookings 1999) chapter 7.

Joel Slemrod *Does Atlas Shrug? The Economic Consequences of Taxing the Rich* (Harvard University Press, 2002). 500+ pages

Henry Aaron & William Gale, *Economic Effects of Fundamental Tax Reform*, (Brookings, 1996).

Michael Boskin, *Frontiers of tax reform*, (Hoover Institution, 1996)

progressivity and the flat tax	deductibility of contributions to retirement plans, IRAs	municipal bond interest deduction; state & local tax deductions	Wealth Tax
Treatment of the Family, marriage penalty	home ownership, in-kind income, & deductibility of interest	indexing and adjustment to inflation	Estate & Gift Taxes
integration with corporate income tax	Integration with Poverty Programs	consumption tax	Payroll Tax
Corporate Tax and Investment	Charities & taxes	Earned Income Tax Credit	Taxing Fringe Benefits

Essay C Government and Growth due Friday December 6 Team Project

Write an page essay on the role of the government sector in economic growth. Read John Joseph Wallis "American Government Finance in the Long Run: 1790 to 1990," *Journal of Economic Perspectives*, Winter 2000, pp. 61-82 for a description of the role of government in the US over

two centuries. Reflect on each of the major issues in this course in formulating your essay. Consider international comparisons. The following questions illustrate ideas that might be pursued.

Should economies with smaller governments grow faster? Do they?

What are the most important government activities or attributes that promote growth? How important are they? What government activities or attributes retard growth? How important are they?

Could a larger government debt ever increase growth? Did this ever happen? Could a larger government debt ever retard growth? Did this every happen?

Given your general ideas about government and growth, discuss how the economic policies concerning federal government spending and taxation advocated by persons of different political points of view are likely to affect economic growth. A critical analysis is welcome.