INTRODUCTION TO PUBLIC FINANCE THEORY

PPS-G612-01

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"The ideas of economists and political philosophers both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slave of some defunct economist."

John Maynard Keynes

Purpose:

This course introduces students to both the theory and practice of American public finance. This course is required for Public Policy Ph.D. students, although Masters' students will also benefit by taking it. Because it is a Ph.D. required course, the course emphasizes the theoretical side of the subject. As the subject is quite complex (but isn't rocket science), to simplify things somewhat, we focus on three key concepts: 1) The sometimes uneasy relationship between economics and public policy making; 2) economic rationality and Market Justice and how it differs from and exists in tension with political Justice; and 3) the trade-off between equity and efficiency that is characteristic in market economies. Although Economics is not a prerequisite for this course, students would benefit from some economics background since the subject is central to an understanding of economic policymaking. Economics of Government—the Federal Sector, which is another prerequisite for the Ph.D. program is complementary to this course. However, that course is more of a straight forward economics course; this course approaches the subject more from the perspective of public policy.

The course is built around four themes: 1) Foundations: What is the proper size and scope of government's role in the national economy? Can government
intervention improve on the market? Does a market failure necessarily mean that government intervention is warranted? Can intervention make things worse, i.e., government failure? If the government intervenes in a market, how should it intervene? To what extent is public ownership of assets and businesses warranted? What is government's proper role in the economy? 2) tools of economic policymaking including fiscal policy, monetart policy and regulatory policy, the Keynesian revolution in macroeconomics, which asserts that government serves to even out the economy's rough edges and 3) equity concerns in public finance, can we have a fair economy and a growing one? What is social justice in the context of public finance, what are justice-and power-centered theories of political economy? Each of these principal and secondary questions will be examined through the prisms of the two major economic ideologies that affect U.S. economic policymaking: the Laissez-faire school and Keynesianism. Finally, what is the US place in the global economy? What role does the deficit and debt play in US political economy? In this last section, we will also examine the economic-and state-oriented approaches to political economy.

Public finance in large part tries to explain the processes that affect how governments raise revenues and make expenditures for goods and services. The discipline also tries to identify ways to influence those same processes so as to improve the lot of citizens who work and pay taxes and who receive the benefits of government programs. The former activity involves determining cause and effect relationships, while the latter tries to identify policy prescriptions. Public finance specialists also make forecasts of what the fiscal conditions of governments are going to be; but if the predictions are to be taken seriously, they must be built on a solid foundation of understanding the processes that shape government's taxing and spending decisions; which is why in this course we are primarily concerned with understanding the processes rather than learning forecasting methods.

**Course Objectives:**

By the end of the course, students will have an understanding of the:

1. Significant and often subtle ways that economics informs, shapes and possibly distorts public policymaking in the U.S.;
2. Different tools of economic policymaking including Fiscal Policy, Monetary Policy and Regulatory Policy;
3. Economics paradigm (*homo economicus*) as a tool for interpreting and predicting social patterns, and how this affects public policy;
4. Application of Political Economy approaches to public policy questions;
5. Trade-off occurring often between equity and efficiency, which is based on the assumption of "scarce" resources, and how this tension shapes public policy;
**Required Textbooks:**


**Course Outline**

Part One: The Big Picture, An Overview of the Subject

(a) Introduction to American Political Economy and Public Finance (Week One)

(b) Theoretical Foundations: Smith and the Classical Approach, the Marxian challenge and the Neo-Classical Response (Weeks Two and Three)

(c) Causes of Market Failure (Week Three)

(d) Measuring Economic Performance (Week Four)
   1. GDP, Worker Productivity, Employment and Unemployment, Inflation, Trade-off between Unemployment and Inflation

Required: Gosling and Eisner, Preface (week 1); Gosling and Eisner, Ch.1 (week 2), Ch. 2 (week 3); Caporaso and Levine, Chapters 1, 2, & 3 (weeks 2 & 3)

Part Two: The Tools of Economic Policymaking

a) Fiscal Policy (Week four)
   i) The President and Fiscal Policy, Congress and Fiscal Policy, Evolution of Fiscal Policymaking
   ii) Expenditure Analysis and Budgetary Policy
   iii) Principles of Taxation and Revenue

b) Monetary Policy (Week five)

C) Regulation and Deregulation (Week five)
d) Theoretical Foundations: Neoclassical economics and Keynes’ Revolution  
(Weeks six and seven)

Required: Gosling and Eisner, Ch. 3 (week 4), Ch. 4 & Ch. 7 (week 5); Caporaso and Levine, Ch. 4 & Ch. 5 (Weeks 6 & 7)

Part Three: Equity in Public Finance and Political Economy
a) Social Welfare Policy (Week eight)
   Poverty in America, Government Assistance, Dependency and the Value of Work, Cash Assistance, Social Insurance
b) Rising Inequality and Squeezing the Middle Class (Week eight)
   (1) Income Distribution between Labor and Capital, Growing Income Inequality, Taxation’s Effects on Income Inequality, The Myth of Upward Mobility
c) Justice-centered and Power-centered Approaches to Political Economy  
(Week nine)

Required: Gosling and Eisner, Ch. 8 & Ch. 9 (week 8); Caporaso and Levine, Ch. 7 & Ch. 9

4) Part Four: American Political Economy in the Global Context
   i) America in the Global Economy (Weeks ten and eleven)
      (a) Global Interconnections, The US International Economic Position,
          Foreign Direct Investment, International Trade, Investment and Employment
   ii) Deficits and Debt (Weeks twelve and thirteen)
      (a) Trends in Federal Debt, Interest Obligation on the Debt, Reasons for the Steep Rise in the Debt, Concerns about the Deficit and Debt, What Should We do to Fix the Debt?
      (b) Deficit Finance
      (c) The Great Recession
         (2) Theoretical Foundations: Economic- and State-centered Approaches to Political Economy (Weeks fourteen and fifteen)

Required: Gosling and Eisner, Ch. 6 (week 10 & 11); Ch. 5 (week 12 & 13); Caporaso & Levine, Ch. 6 (week 13) & ch. 8 (week 14); Krugman ch. 1, 2, 3, 4 & 5 (week 10 & 11); ch. 6, 7, 8, 9 & 10 (week 12 & 13).

Instructor’s Expectations of the Students

Every student is required to attend class. If a student must miss a class, he/she must inform the instructor before the day of the class. If a student does not attend class, it
is his/her responsibility to hand in the assignment that is due that day and to get the class notes from another student.

Students are required to submit their completed assignments on time. If a student does not hand in an assignment when it is due, 5 points will be deducted for every day it is late.

Students must complete assigned readings as outlined in the syllabus before each class. Students must come to class prepared to identify and discuss 3 main points in each reading. The instructor will call upon students at random to discuss the assignments.

Access to the instructor should never be a problem. I may be reached by phone, in-person, or by e-mail. If a student has any questions or issues regarding the course, it is up to the student to convey this to the instructor. Inability to contact the instructor will never be viewed as a valid excuse under any circumstance in this course.

Every student is required to abide by the university and college’s code of ethical conduct. Failure to do so under any circumstance will result in an automatic F for the assignment.

**Grading:**

The grading for the course is based on the following:

- Mid-term exam (30%)
- 4 policy briefs (Masters students) or term paper (doctoral students) (40%)
- Final exam (30%)

The grading standards are:

- Minimum (C): regurgitation of the material without any integration and synthesis
- Average (B): regurgitation and some synthesis
- Above Average (B+): Synthesis of the material and arguing an evaluative position
- Superior (A): Synthesis of the material and defense of an evaluative position