

INTRODUCTION TO PUBLIC FINANCE THEORY AND MODERN POLITICAL ECONOMY

POLS-G6120

Spring Semester, 2016

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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 will introduce students to the theory and practice of public finance through the lens of political economy. It is required for the students in the Public and Social Policy Ph.D., although Masters' students can also take it. As a required course for Ph.D. students, the course emphasizes the theoretical side of public finance. Due to the complexity of the subject, in order to simplify things, the course will focus on three key elements: 1) the tension between economic theory and public policy making; 2) tension between economic rationality and politics; and 3) the trade-off between equity. Although Economics of the Public Sector or Economics of Government—the Federal Sector are not prerequisites, it is advisable that students should have some economics background since it is central to an understanding of this subject. However, those courses are more straight forward economics courses, while this course approaches the study of public finance through the perspective of public policy.

This course is built on two core principles: 1) **Examining the proper size and scope of government** in the national economy. In the context of this principle we will examine the following questions: Can government intervention in the free market improve outcomes? Does market failure necessarily warrant government intervention? Can government intervention possibly make things worse? If the government intervenes in a market, how should it intervene? And 2) **Comparing the major theories of political economy**, starting with Adam Smith continuing to the present day.

The First Part of the course will delve into the theoretical foundations of modern political economy as established by the classical, neo-classical, Marxist and Keynesian schools of economic thought. Each one of these approaches or ideologies, if you will, has been widely misunderstood, or worse, misinterpreted by disciples and foes alike. In the First Part, we will try to set the record straight.

The Second Part traces the evolution of American political economy in the post-WW II era, including the rise and decline of statist economics and the continuing debate between the followers of Keynes, including Nobel Prize winner Paul Krugman, and libertarians like Milton Friedman, over the relationship between state and market in American political economy. We also examine the 2007 financial meltdown and subsequent bail-out, the most significant political economy event of the past fifty years. (If you haven't already seen *The Big Short*, a new movie based on the book we will be using in class, I advise you to see it soon. It does a marvelous job of making the subject come alive for everyone.)

The Online Encyclopedia Britannica defines Political Economy as follows.

Political economy, branch of [social science](#) that studies the relationships between individuals and [society](#) and between markets and the state, using a diverse set of tools and methods drawn largely from [economics](#), [political science](#), and [sociology](#). The term *political economy* is derived from the Greek *polis*, meaning “city” or “state,” and *oikonomos*, meaning “one who manages a household or estate.” Political [economy](#) thus can be understood as the study of how a country—the public’s household—is managed or governed, taking into account both political and economic factors.

Public finance, in large part, tries to explain the processes that influence 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 with forecasting.

Course Objectives:

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

1. Significant ways that economics informs, shapes and, in some ways, dominates public policymaking in the U.S.;
2. Economics paradigm (*homo economicus*) as a model for understanding and predicting social behavior and how this affects public policy;
3. Application of the major economic ideologies (classical, neo-classical, Keynesian) to public policy questions;
4. Trade-off between equity and efficiency, which is based on the assumption of “scarce” resources and how this tension shapes public policy; and
5. Important theories and theorists of political economy.

Required Textbooks (available in the bookstore or elsewhere):

James A. Caporaso and David P. Levine, *Theories of Political Economy*, Cambridge University Press, 2009. (Hereafter C&L)

Paul Krugman. *The Return of Depression Economics and the Crisis of 2008*. W.W. Norton and Company, 2009. (Hereafter K)

Michael Lewis, *The Big Short: Inside the Doomsday Machine*, W.W. Norton & Company, 2010. (Hereafter L)

In addition, I highly recommend Robert Heilbroner's very accessible history of economic thought, *The Worldly Philosophers*. You can obtain used copies online or try to borrow a copy from a library. There are some readings that are listed below from the theorists themselves that you will find useful to read. I have included web addresses where you can read them online or download them without cost. I also recommend that you keep up with the economic news by reading a national newspaper like the Wall Street Journal or the New York Times and The Economist, which is a news magazine specializing in economics and politics from Great Britain.

Outline of Class Discussions:

Introduction to the ideas and themes of the course (January 11)

(C&L) Introduction.

R. Heilbroner, "On the Limited 'Relevance' of Economics,"
(http://www.nationalaffairs.com/public_interest/detail/on-the-limited-relevance-of-economics)

New York Times Article, "Congress Passes \$1.8 Trillion Budget",
(http://www.nytimes.com/2015/12/19/us/congress-spending-bill.html?ref=topics&_r=0)

January 18 Martin Luther King Day (No Class)

Classical Economics and the Modern Liberal State (January 25, Feb.1)

(C&L) Chapters 1 & 2

Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations Book I, Ch. 1; Book IV, Introduction, Ch. 2; and Book V, Ch 1.
(<http://www.econlib.org/library/Smith/smWN12.html#B.IV,%20Introduction>)

Recommended: (H) Chapters 2, 3 & 4.

Marx' Utopia and the Revolutionary Left (February 8 & 15)

(C&L) Chapter 3

K. Marx and F. Engels, The Communist Manifesto Parts One and Two
(<https://www.marxists.org/archive/marx/works/1848/communist-manifesto/>)

K.Marx. Capital, Vol.1. Ch.25, (<https://www.marxists.org/archive/marx/works/1867-c1/>)

Recommended: (H) Chapters 5 & 6.

The Neo-classical Approach to Political Economy (February 22, 29)

(C&L) Chapter 4

Milton Friedman, "Capitalism and Freedom" (1961 extract) (http://if-oll.s3.amazonaws.com/titles/2492/Friedman_CapitalismFreedom1961.pdf) (Friedman is considered the best example of libertarian neo-classical economics.)

Alfred Marshall, *The Principles of Economics*, Book I.I—I.IV
(<http://www.econlib.org/library/Marshall/marP1.html#Bk.I,Ch.I>)

March 7 Spring break (no class)

J.M. Keynes' Spirited Defense of Capitalism and Rise of Countercyclical Policy (March 14, 21)

(C&L) Chapter 5

John Maynard Keynes, *The General Theory of Employment, Interest and Money* (Chs. 10, 12 and 24)
(<https://www.marxists.org/reference/subject/economics/keynes/general-theory/>)

March 28 Easter Break (no class)

Third Theme: Economic-, Power-, State- and Justice-centered theories

Economic Approaches to Political Economy (April 4)

(C&L) Chapter 6

(L) Chapters 1-4

Power-centered Approaches to Political Economy (April 11)

(C&L) Chapter 7

(L) Chapters 5-Epilogue

State-centered Approaches to Political Economy (April 18)

(C&L) Chapter 8

(K) Chapters 1-5

Justice-centered Approaches to Political Economy (April 25)

(C&L) Chapter 9 and Conclusion

Another Economic Crisis in the Future is not Only Possible it is Inevitable

(K) Rest of book including Epilogue

Final exam May 9

Instructor's Expectations of the Students Students are required to attend every 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 (March 7) 30%

Research paper due on May 2 (last day of class) 35%

Final exam (May 9) 30%

Class attendance and participation. (5%)

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

Academic Integrity Syllabus Statement

Academic integrity is honest, truthful and responsible conduct in all academic endeavors. The mission of Saint Louis University is "the pursuit of truth for the greater glory of God and for the service of humanity." Accordingly, all acts of falsehood demean and compromise the corporate endeavors of teaching, research, health care, and community service via which SLU embodies its mission. The University strives to prepare students for lives of personal and professional integrity, and therefore regards all breaches of academic integrity as matters of serious concern.

The governing University-level Academic Integrity Policy was adopted in Spring 2015, and can be accessed on the Provost's Office website at:

http://www.slu.edu/Documents/provost/academic_affairs/University-wide%20Academic%20Integrity%20Policy%20FINAL%20%2006-26-15.pdf.

Additionally, each SLU College, School, and Center has adopted its own academic integrity policies, available on their respective websites. All SLU students are expected to know and abide by these policies, which detail definitions of violations, processes for reporting violations, sanctions, and appeals. Please direct questions about any facet of academic integrity to your faculty, the chair of the department of your academic program, or the Dean/Director of the College, School or Center in which your program is housed.

Specific College of Arts and Sciences Academic Honesty Policies and Procedures may be found at:

<http://www.slu.edu/x12657.xml>

Title IX Syllabus Statement

Saint Louis University and its faculty are committed to supporting our students and seeking an environment that is free of bias, discrimination, and harassment. If you have encountered any form of sexual misconduct (e.g. sexual assault, sexual harassment, stalking, domestic or dating violence), we encourage you to report this to the University. If you speak with a faculty member about an incident of misconduct, that faculty member must notify SLU's Title IX coordinator, Anna R. Kratky (DuBourg Hall, room 36; akratky@slu.edu; [314-977-3886](tel:314-977-3886)).

If you wish to speak with a confidential source, you may contact the counselors at the University Counseling Center at 314-977-TALK. To view SLU's sexual misconduct policy and for resources, please visit the following web address: <http://www.slu.edu/general-counsel-home/office-of-institutional-equity-and-diversity/sexual-misconduct-policy> www.slu.edu/here4you .

Student Success Center Syllabi Statements

In an effort to be inclusive of students' learning styles and needs with regard to academic support, the following statement has been developed for use in course syllabi which identifies resources for student support in various areas of learning. As faculty members construct their syllabi for future courses, it is requested that they update materials to include new language regarding academic and career related support offered to students through the Student Success Center.

The syllabus statement will be available throughout the year by visiting the following websites, but we encourage you to place these resources on any departmental websites you feel necessary:

- Student Success Center: www.slu.edu/success
- Reinert Center for Transformative Teaching & Learning: www.slu.edu/ctl

Student Success Center Syllabus Statement: In recognition that people learn in a variety of ways and that learning is influenced by multiple factors (e.g., prior experience, study skills, learning disability), resources to support student success are available on campus. The Student Success Center, a one-stop shop, which assists students with academic and career related.

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- Course-level support (e.g., faculty member, departmental resources, etc.) by asking your course instructor.
- University-level support (e.g., tutoring services, university writing services, disability services, academic coaching, career services, and/or facets of curriculum planning) by visiting the Student Success Center or by going to www.slu.edu/success.

Disability Services Academic Accommodations Syllabus Statement Students with a documented disability who wish to request academic accommodations are encouraged to contact Disability Services to discuss accommodation requests and eligibility requirements. Please contact Disability Services, located within the Student Success Center, at Disability_services@slu.edu or [314.977.3484](tel:314.977.3484) to schedule an appointment. Confidentiality will be observed in all inquiries. Once approved, information about academic accommodations will be shared with course instructors via email from Disability Services and viewed within Banner via the instructor's course roster.

