August 16, 2012

Georgia State University
Andrew Young School of Policy Studies
Fall, 2012

EC 8460, Economics of the State and Local Public Sector
303 Aderhold; Thursday 4:30-7:00

Instructor:
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Office Hours:
Thursdays 1:30 – 2:30 or by appointment. (I am in my office most days, all day.)

Overview:
There are three levels of government in the United States: federal, state, and local. While the federal government is the largest and probably receives the majority of media attention, state and local governments provide and finance the public services that most directly affect citizens. These public services include public education, police and fire protection, street and road maintenance, water supply, sanitation, and refuse removal, among others. State and local government finance these services through a mix of tax revenue, for example property taxes, income taxes, and sales taxes, charges and fees, and grants. This course provides an overview of U.S. state and local government fiscal institutions and behavior.

In particular, Econ 8460 focuses on five major topical areas:

1. The course provides an overview of state and local government expenditures and revenues. We consider the patterns and trends of expenditures and revenues and highlight the similarities and dissimilarities among governments.
2. The course explores the factors that affect government decisions regarding expenditures and revenues.
3. The course explores the intergovernmental fiscal relations among federal, state, and local governments. That is, we will consider the actual and desired allocation of activities between levels of government as well as intergovernmental grants and tax base competition.
4. A major focus of the course is the analysis of sources of revenue such as property, sales, and income taxes, lotteries, and government operated enterprises.
5. Consideration of the provision and financing of selective public services.

Throughout the course, policy issues associated with each topic will be highlighted and explored.
Typically the course attracts a mix of MPA, MA, MS, and Ph.D. degree students, each with a different objective and background. I try to accommodate those differences. However, remember that this is a masters level economics course on public economics, and not a Ph.D. level course nor a course in public administration. In designing the course I have attempted to make it suitable for public administration students by providing a more applied than theoretical understanding of state and local public economic issues. The assigned readings and class presentations are not particularly rigorous or abstract in terms of economic theory; in fact the textbook was written for an upper level, undergraduate course. That said, students, and particularly Ph.D. students, are free (and expected) to delve more deeply into the theory of state and local public economics.

Objectives:

1. Become conversant with U.S. subnational fiscal institutions. For example, learn the features of the property tax and how the tax functions.

2. Become knowledgeable about various data sources for information on state and local government revenue and expenditures.

3. Understand the incentives generated by fiscal institutions.

4. Learn how to use economic frameworks (theories) to understand the consequences of the incentives created by fiscal institutions.

5. Gain an understanding of the policy issues associated with state and local fiscal institutions.

6. Improve one’s ability to frame policy options and to evaluate information (research) on policy options.

7. To enhance your ability to inform those who make fiscal policy decisions. This includes pulling together information (research), developing recommendations, defending them, and presenting the material in a coherent and readable format.

8. **For Ph.D. students:** Acquire a knowledge and understanding of the principal theories that apply to the state and local sector and become better at framing theoretical explanations of the economic implications of incentives.

Class Format:

Class sessions will consist of a mix of lectures and class discussions. The topics for discussion will be distributed prior to the class session.
Prerequisite:
A course in microeconomics beyond Principles of Economics, or permission of the instructor.

Assignments:
1. **Readings.** Required reading assignments are indicated below by an *. Many of the readings are available through the web or are in electronic journals available through the library; others are or will be on uLearn. There are additional readings that I expect Ph.D. students will read; however, those readings will not be on covered on the exams.

2. **Exams.** There will be two exams: a mid-term and a final examination. **The mid-term will be held on October 9. The final exam will be on December 6, 4:14 to 6:45.**

3. **Written Assignments.** There will be four short written assignments. Material for these assignments will be distributed during the semester. There is an additional written assignment for Ph.D. students; details will be provided separately.

Class Participation:
All students are expected to attend class and to take an active role in class discussions. Thus all students are expected to be prepared for class discussions by having read the relevant material and considered the discussion questions for that particular class.

Grades:
The following weights will be used to determine each student's final grade for the course:

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Mid-Term Exam</td>
<td>35%</td>
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<tr>
<td>Final Exam</td>
<td>35%</td>
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<tr>
<td>Written assignments</td>
<td>30%</td>
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Grades will be assigned as follows:
- A+: 97-100%
- A: 94-96%
- A-: 90-93%
- B+: 87-89%
- B: 84-86%
- B-: 80-83%
- C+: 77-79%
- C: 74-76%
- C-: 70-73%
- D: 0-69%

Attendance:
If you miss two classes in a row without notifying me, you will be withdrawn from the course.

Late Papers and Make-up Exams:
I expect all papers and exams to be on time. Late papers and make-up exams will be allowed only in unusual situations and then only if permission is obtained prior to the due date or date of the exam.

Honesty:
Please review the University’s Policy on Academic Honesty (Section 409)

Course Evaluation:
Your constructive assessment of this course plays an indispensable role in shaping education at Georgia State. Upon completing the course, please take time to fill out the online course evaluation.

Disabilities:
Students who wish to request accommodation for a disability may do so by registering with the Office of Disability Services. Students may only be accommodated upon issuance by the Office of Disability Services of a signed Accommodation Plan and are responsible for providing a copy of that plan to instructors of all classes in which an accommodation is sought.

Course Schedule:
This schedule is tentative; deviations may be necessary and are likely.

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<thead>
<tr>
<th>DATE</th>
<th>SECTION OF OUTLINE</th>
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<tbody>
<tr>
<td>August 23</td>
<td>1. INTRODUCTION</td>
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<td>August 30</td>
<td>2. DETERMINING TAX AND EXPENDITURE LEVELS</td>
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<td>September 6</td>
<td>3. MOBILITY</td>
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<td>September 13</td>
<td>4. FEDERALISM</td>
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<td>September 20</td>
<td>5. PRINCIPLES OF TAX ANALYSIS</td>
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<td>September 27</td>
<td>6. PROPERTY TAX (Institution)</td>
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<td>October 4</td>
<td>6. PROPERTY TAX (Economics)</td>
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<td>October 11</td>
<td>MID-TERM EXAM /7. SALES AND EXCISE TAXES</td>
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<td>October 18</td>
<td>8. INCOME TAX</td>
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<td>October 25</td>
<td>9. BUSINESS TAXES</td>
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<td>November 1</td>
<td>10. OTHER REVENUE</td>
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<td>November 8</td>
<td>11. GRANTS/ EDUCATION Financing</td>
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<td>November 15</td>
<td>12. ECONOMIC DEVELOPMENT</td>
</tr>
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<td>November 22</td>
<td>Thanksgiving, no class 12.</td>
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<td>November 29</td>
<td>13. EXPENDITURE ISSUES</td>
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<tr>
<td>December 6</td>
<td>FINAL EXAM (1:30 - 4:00)</td>
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COURSE READING ASSIGNMENTS


* refers to items that are required reading.

Ph.D. students are strongly encouraged to read the readings marked (Ph.D.).

The course syllabus provides a general plan for the course; deviations may be necessary.

1: INTRODUCTION

* Fisher, Chap 1, “Why Study State and Local Government Finance”

This chapter provides an overview of subnational governments in the U.S. The chapter discusses the characteristics of state and local governments (SLG) such as the size and growth of SLG, an overview of their revenue structure and expenditure patterns, and their diversity. The chapter also discusses the roles that SLG should play in the economy.

* Fisher, Chap 2, “Microeconomic Analysis”

This chapter provides basic microeconomic principles of economic efficiency that will be used in this course.


Read pages 1-4 and the rest if you have an interest.

The Institute tracks state and local tax revenue changes by quarter. It is a good source if you want to see how state and local governments are doing.


Read pages 1-3 and the rest if you have an interest.

NCL conducts an annual survey of the fiscal conditions of cities.


Read pages 1-4 and glance at the rest of the report.

The report provides a comparison of the level of taxes in Georgia to other states.
Read pages 1-6 and the rest if you have an interest.
The Task Force looked at 6 large states and investigated the external forces on the states’ budget and identified 6 major fiscal threats.


2: DETERMINING TAX AND EXPENDITURE LEVEL

* Fisher, Chap 3, “Public Choice Without Mobility.”

In a representative democracy citizens vote for elected officials who in turn vote on tax and expenditure policies. This chapter explores how citizen preferences get reflected in the choices that elected officials make.


Citizens get utility from the provision of public services just as they get utility from private goods and service. So, just as consumers demand for private goods and services depends on prices and income, citizens demand for public services depend on prices and income. This chapter explores the nature of preferences, prices and income in the case of public services and presents estimates of the price and income elasticities.


Ph.D. students should “learn” this paper. Other students should read it to get a sense of the theory and empirical results. This is the classic piece on the demand for public services. It changed the way economists think about the determinants of government expenditures.

This chapter explores how changes in demographics and the economy are likely to affect the behavior of SLG.


This article explores the effect of the growth of suburban business on local government spending.

3: MOBILITY

* Fisher, Chap 5, “Public Choice Through Mobility”

One of the main features of subnational governments is the ability of individuals (as workers and residents) and capital to move between jurisdictions.


This is another application of the Tiebout model. You should read it to see how the Tiebout model is applied and what the findings are. Ph.D. students should understand the empirical techniques used.


This is a classic paper. Tiebout’s basic idea that individual choose their jurisdiction based on the taxes and expenditures offered has generated 1000s of paper.


This is one of the first attempts to formally model the Tiebout model.


This paper reviews recent sorting (Tiebout) models.

This is an application of the Tiebout model. You should read it to see how the Tiebout model is applied and what the findings are. Ph.D. students should understand the empirical techniques used.

4: FEDERALISM


Two major policy issues concerns which level of government should provide which service and how large should jurisdictions be. This chapter provides the basic framework for thinking about those issues.


This chapter presents the cases for a decentralized and a centralized system of government.


Brunori makes the case for the desirability of a strong and important local government sector.


This essay discusses the various ways that the federal government affects SLG revenue and expenditures.


5: PRINCIPLES OF TAX ANALYSIS

* Fisher, Chap 12, “Principles of Tax Analysis.”

This chapter discusses the issues of equity and efficiency of a tax.


This document lists the features of what is considered a good (high-quality) tax system.
6: PROPERTY TAX


This chapter describes the structure of the property tax.

* Fisher, Chapter 14, “Property Tax: Economic Analysis and Effects.”

This chapter explores the economic effects of the property tax, and presents the various views of who pays the property tax.


As the title suggests, this is a brief history from the national perspective of how the features of the property tax has changed over time. Read this OR Sjoquist’s history of the property tax in Georgia.


As the title suggests, this is a brief history from the Georgia’s perspective of how the features of the property tax has changed over time. Read this OR Wallis’ history of the property tax in the U.S.


There are alternative views of the incidence of the property tax. Zodrow provides an excellent summary of these views and the existing evidence of which one is likely to be correct.


In 1978, California adopted Proposition 13, which is a limit on the property taxes that local governments can impose. This essay discusses how Prop 13 and subsequent limitations affected property taxes, and suggests what changes are needed to limit the size of government.
This paper fundamentally changed the way that economists think about the property tax. It is a must read for Ph.D. students. It is not required for other students.


This paper provides a numerical description of the property tax in Georgia. It is not required, but recommended if you want to get some sense of size of the components and features of the property tax.


**7: SALES AND EXCISE TAXES**


This chapter provides an overview of the structure of sales and excise taxes, their economic effects, and some of the policy issues.
Just about every state tax reform commission has recommended that services be added to the sales tax base. Fox is an expert on the sales tax and in this reading he discusses the issues associated with trying to tax services. He also discusses the issues associated with the exemption of food for home consumption.


This is an analysis of how inter-state differences in tax rates affect prices over space. You should read it to see how economic theory is applied and what the findings are. Ph.D. students should understand the empirical techniques used.


The Supreme Court has made it difficult for states to collect sales taxes on sales made over the internet. This essay explains the issue and discusses efforts to overcome the problem.


This is a good discussion and analysis of the incidence of an excise tax. You should read it to see how economic theory is applied and what the findings are. Ph.D. students should understand the empirical techniques used.


This is the one of the few papers that explores the assumption that the sales tax is borne by consumers.


8: INCOME TAX

* Fisher, Chap 16, “Income Taxes.”

This chapter provides an overview of the structure of the personal income tax, its economic effects, and some of the policy issues.


A major question regarding the personal income tax is the extent to which the tax affects the level of income. This article is an attempt to measure the effect of income taxes on the growth of income.


The governor of Oklahoma would like to eliminate the state’s personal income tax. This study presents evidence of how the state’s economy will grow if the income tax is eliminated. This report will be the basis for the class discussion.


A short article describing the steps the rich take to avoid paying state personal income tax.


This report presents an analysis of possible changes to the Georgia personal income tax. It shows the change in total revenue and in the distribution of tax burden.


9: BUSINESS TAXES

* Fisher, Chap 17, “Business Taxes.”

This chapter provides an overview of the various ways that businesses are taxed, including the corporate income tax, along with a discussion of some of the policy issues.


This reading lays out a set of principles on which to design a tax on business.


New Hampshire is the only state in the U.S. to impose a value added tax. This article explains how it works and what effect it has had.


If a state could attract lots of new business (that is capital) by lowering its tax rate, then it might do so. But, other states might retaliate. Does this type of competition for tax base exist, and what is the effect.


A few states have adopted a gross receipts tax in place of the corporate income tax. This article discusses the pros and cons of adopting a gross receipts tax.


10: OTHER REVENUE


Economists argue that it would be better if state and local governments imposed charges for some of the public services offered rather than financing them through taxes and imposing charges
when demand exceed capacity. This chapter presents the arguments and theory for doing so.

* Fisher, Chap 18, “Revenue From Government Monopoly and Regulations.”

Many state and local governments operate businesses that in other states are private businesses. This chapter discusses these business and the issues associated with them.


The legalizing and taxing of gambling has generated a new source of state revenue. This article discusses the way in which states tax casino gambling and the economic issues associated with such taxes.


Many years ago Singapore adopted a policy of charging drivers for using streets. This article explains how this policy works and what effect it has had on driver behavior.


**11: GRANTS/ FUNDING EDUCATION**

* Fisher, Chap 9, “Intergovernmental Grants.”

A major source of revenue for state and local government are grant funds. This chapter discusses how grants are designed and the effect incentives that grant provide.


Elementary and secondary education is finances largely through grants from state government to local school systems. The assigned pages from this chapter explore the financing of elementary and secondary education.

In this essay Inman makes a case for suburbs providing funding to their central city.


One of the objectives in state funding of education is to increase the equity of the allocation of education resources across students. In this reading assignment, Yinger explores how various forms of state aid affect the equity of school financing.


Grants can have incentives that affect the behavior of the receiving government. This article explores the extent of the response of local governments to state education aid.


This report provides a very detail explanation for how public schools are financed in Georgia. Read it if want a sense of how the funding mechanism works and how complex it is.


12: ECONOMIC DEVELOPMENT

The focus of this chapter is on how state and local policies affect economic conditions.


This is a survey of studies on the effect of economic development incentives such as tax credits.


One type of economic development policy focuses on incentives to investment in plant and equipment in the state. This article discusses the design and effectiveness of such incentives.


Over the past couple of decades an increasing number of states had attempted to attract movie production to their state by offering tax incentives. This report discusses the growth in such policies and their desirability.


A short newspaper story about the effects of Ohio’s film tax credit.


Tannenwald’s testimony to the Massachusetts legislature lays out the case against film tax credits.


**13: EXPENDITURE ISSUES**

* Fisher, Chap 20, “Transportation”

  This chapter discusses the financing of transportation.

* Fisher, Chap 21, “Health and Welfare”

  This chapter discusses state Medicaid and welfare programs.


  This article provides a nice summary of the fiscal issues associated with Medicaid.