

RPOS399: Public Spending and Fiscal Policy
State University of New York at Albany
Fall 2015

Professor: Zsofia Barta

Office hours: Tuesdays and Thursdays 9.15-10.15 in the Contact Office (HU B64)

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Course description

This course focuses on the politics of public finances. It explores the social conflicts surrounding taxation, public spending, and public debt, the role played by different political actors and institutions in fiscal policy choices, and the influence of non-governmental and supra-national organizations (like rating agencies or the International Monetary Fund) on national public finance. It seeks to answer questions like ‘Why do different countries spend and tax so differently?’ ‘Why do some countries get dangerously indebted?’ ‘How do others keep their budgets in balance?’ The course relies on independent study, class discussion and student projects. The last three weeks are set aside for team-projects analyzing the significant problems of several countries in the wake of the global economic and financial crisis.

Course objectives

By the end of the course, students should have a good understanding of how public finances work. They should be familiar with the technical and the political aspects of budgeting, recognise the main “stakeholders” in the process and appreciate their influence on policy choices. They should be able to apply this knowledge to explore the fiscal challenges that countries face in the wake of the global economic and financial crisis.

Teaching method

This course relies on independent study, class discussions and student projects.

Readings form an integral part of the coursework. Therefore, it is imperative that students keep up with readings. Readings listed for each week relate to the whole week. Accordingly, students are expected to have read all of the texts assigned for the week before coming to class on Tuesday in order to be able to participate in class discussion and to ask informed questions throughout the week. In addition, students are expected to hand in response papers of no more than 200 words by Monday midnight each week based on questions related to the week’s reading.

In week 7, students will be asked to engage in independent analysis of the budgets of different countries and compile a report. Further guidance on the country report can be found in Appendix 1. of this syllabus.

From week 7 until the last weeks of the course, students will also work on a second project to apply their knowledge to real-world debt problems. (Depending on enrollment in the course, this might be a team project or an individual project.) They will make themselves familiar with the fiscal situation of different countries that have had serious fiscal problems (Argentina, Greece, Ireland, Italy and Japan), analyze the evolution of these countries' spending and taxation patterns and their experience with public debt and debt crises, and propose solutions to the challenges that the countries are facing from the perspective of different "stakeholders" (e.g. the government, the opposition, the IMF, rating agencies, the electorate etc.). Further guidance on team projects can be found in Appendix 2. of this syllabus.

Assessment

The final grade for the course will be based on the following components:

- response papers 27%
- first project (country report) 30%
- second project (problem countries) paper 30%
- second project (problem countries) presentation 13%

Readings

There is no single textbook for this class. However, several sections are assigned from the following books:

- Meyers (1999) Handbook of Government Budgeting
- Tanzi and Schuknecht (2000) Public spending in the 20th century :a global perspective

Readings will be made available on Blackboard.

Accommodations

"Reasonable accommodations will be provided for students with documented physical, sensory, systemic, cognitive, learning and psychiatric disabilities. If you believe you have a disability requiring accommodation in this class, please notify the Director of Disabled Student Services (Campus Center 137, 442-5490). That office will provide the course instructor with verification of your disability, and will recommend appropriate accommodations. (For further information, please visit <http://www.albany.edu/studentlife/dss/Accommodation.html>).” If you wish to discuss academic accommodations for this course please also inform the instructor as soon as possible. In addition, the instructor will make every effort to accommodate difficulties arising from religious observance. You are asked to bring any possible conflicts to the instructor's attention as soon as possible.

“Students should not expect that, if they do poorly on an exam or other assignment, to claim, at that time, the need of an accommodation. This statement is to preclude that problem, and allow people with a need for accommodations to be treated fairly and appropriately (Harwood 2003).”

Plagiarism

Please make sure to know and follow the rules. If you are involved in plagiarism the penalty will be failure in the course and you will be reported to judicial affairs. Every Student is expected to go through the following tutorial <http://library.albany.edu/usered/plagiarism/index.html>. All papers will be judged with the knowledge that you have taken the online tutorial.

Appendix 1.

Guidelines for the first project: Country report

The purpose of the individual project is to apply the knowledge acquired in the first term to real-world cases.

Keeping in mind the concepts, issues and theories that we discuss in the first half of the course, students should make themselves familiar with the public finances of a country of their choice (other than the US) and write a report on the fiscal policy of that country.

The report should answer the following questions.

- What does this country spend on?
- What sort of taxes does it employ to get its revenues?
- Are there any anomalies about spending or taxation? (E.g. corruption, tax evasion)
- Do revenues cover expenditures?
- How indebted is this country?
- How do the public finances of this country compare to other countries?
- What are some political problems surrounding public finances in this country?

The report should rely mostly on description, but it should also include informative tables and/or graphs to illustrate the most important points of the analysis.

We are going to spend a class on how to best obtain and analyze fiscal data in order to facilitate the project.

The country report should be around 600 words and it is due by midnight, Monday, October 12. It should be submitted via Blackboard. It serves as an alternative form of assessment instead of a midterm exam.

Appendix 2.

Guidelines for the second projects: Problem countries

Purpose of the project

The purpose of this project is to creatively apply the knowledge of public finances that you acquired throughout the course to real-world cases.

All of the five case studies that we look at are countries that have recently faced considerable challenges with respect to public finances.

- Ireland had serious fiscal problems in the past, which it overcame and by the mid-2000s it almost had no debt. Due to a severe banking crisis, however, it is once again mired in government debt.
- Japan is the most indebted sovereign in the world with a debt going on 250 percent of the GDP.
- Italy is also amongst the most indebted countries. In the past years, it was often on the brink of a sovereign debt crisis and had it not been for the European Central Bank, it would have already gotten into trouble for its sovereign debt.
- Argentina is a serial defaulter, a country that seems to be cursed with “debt intolerance.”
- Greece is the only developed country that has defaulted on its obligations, which wreaked havoc in the European Union.

Through the case studies, we seek to understand what explains these countries' problems. What are the root-causes of the fiscal imbalances that have led to large-scale debt accumulation? What do we know about the specific country's spending and taxation patterns? Is it overspending or missing tax revenues that explain the persistent borrowing? How does the politics of the given country explain spending, taxation and borrowing? How should the budget be adjusted to address the problem of debt in these countries? How likely is it that such adjustment will be politically feasible?

The substance of the project

The Greek, Irish, Japanese, Italian and Argentinean case studies will be prepared either individually or in groups (depending on class size). Students should sign up for a country on Blackboard by Monday, September 29, the latest.

The paper should be no longer than 1000 words, for individual papers or 2400 words for team papers. It should analyze the fiscal issues of the given country and answer all of the above questions.

Each student/group will also prepare a presentation that explains to the rest of the class what they think are the most important factors explaining their country's public finance problems. The presentation should aim to be no longer

than 30 minutes. For the rest of the class, the presenters will lead the discussion with their fellow classmates.

The papers are due by midnight on Monday, November 2. They should be submitted on Blackboard.

Presentations will take place in week 12 through 14. The presentation on Ireland will take place on Tuesday, November 10, Japan on Thursday, November 12, Italy on Tuesday, November 17, Argentina on Thursday, November 19 and Greece on Tuesday November 24. Each student/group needs to send me their power point slides before 9am on the day that they present.

Technicalities

You should start working on your second project no later than week 7. From then on, you will be expected to submit weekly progress reports to allow me to keep track of the process and provide feedback. Progress reports should include

- a comprehensive bibliography of all the sources (databases, articles, books, reports etc.) the project currently uses,
- half a page description of where the project is currently at,
- any problems that you need help with or
- any questions.

I will provide feedback to these reports in writing and/or in person. I am also happy to read and comment on up to three consecutive drafts of the final paper.

Weekly outline

Wk	Topic	Tuesday	Thursday	Compulsory readings	Recommended readings	Assignment due
1	Introduction		Aug. 27. Budgeting: concepts, actors, processes	<ul style="list-style-type: none"> Rubin (2010). The Politics of Public Budgeting Ch1 	<ul style="list-style-type: none"> Meyers (1999) Handbook of Government Budgeting Ch 1 and 2. 	None
2	Government spending	Sept.1. Historical evolution	Sept. 3. Spending structure	<ul style="list-style-type: none"> Tanzi and Schuknecht (2000) Public spending in the 20th century: a global perspective, Ch 1, 2 and 5 	<ul style="list-style-type: none"> Milesi-Ferretti, Perotti and Rostagno (2002) Electoral Systems and Public Spending, Quarterly Journal of Economics, May 2002 	Response paper 1: Describe the historical expansion of government spending.
3	Special aspects of spending	Sept.8. Entitlements	Sept.9. Pork-barrel, clientelism, corruption	<ul style="list-style-type: none"> Meyers: Handbook of Government Budgeting Ch 27 Stokes (2009) Pork, by Any Other Name...Building a Conceptual Scheme of Distributive Politics 	<ul style="list-style-type: none"> Kawata (2006) Comparing political corruption and clientelism, Ch 2,3 Geddes and Neto (1992) Institutional sources of corruption in Brazil. Third World Quarterly 13(4) Evans (1994) Policy and Pork: The Use of Pork Barrel Projects to Build Policy Coalitions in the House of Representatives American Journal of Political Science, Vol. 38, No. 4 	Response paper 2: Answer ONE of the following two questions: (a.) Why are entitlements a risky item of public finances (b.) Where is the boundary between pork barrel spending and clientelism or outright corruption?
4	Taxation 1.	Sept.15. No class Rosh Hashanah	Sept.17. Size of taxation	<ul style="list-style-type: none"> Tanzi and Schuknecht (2000) Public spending in the 20th century :a global perspective, Ch 3 (p50-61) 	<ul style="list-style-type: none"> Steinmo and Tolbert (1998) Do Institutions Really Matter? Taxation in Industrialized Democracies Comparative Political Studies 1998 31(165) 	Response paper 3: Describe some of the main historical trends taxation. (Due 12 midnight on September 16.)
5	Taxation 2.	Sept.22. Tax structure and political conflict	Sept.24. No class Yom Kippur	<ul style="list-style-type: none"> Adolino and Blake (2011) Comparing Public Policies, Ch 7 Meyers (1999) Handbook of Government Budgeting Ch 10 	<ul style="list-style-type: none"> Meyers (1999) Handbook of Government Budgeting Ch 13 Campbell (1993). The State and Fiscal Sociology. Annual Review of 	Response paper 4: What are some of the most important characteristics of tax system?

					Sociology (19)	
6	Anomalies in taxation	Sept.29. "Tax expenditures"	Oct. 1 Tax evasion and tax revolts	<ul style="list-style-type: none"> • Meyers (1999) Handbook of Government Budgeting Ch 11 • Howards (1999) The Hidden Welfare State: Tax Expenditures and Social Policy in the United States, Ch 1 • Martin (2008) The Permanent Tax Revolt - How the Property Tax Transformed American Politics, Ch 1. http://www.sup.org/pages.cgi?isbn=0804758719&item=Chapter_1_pages&page=1 	<ul style="list-style-type: none"> • Tanzi and Shome (1993) A Primer on Tax Evasion. Staff Papers - International Monetary Fund Vol. 40 • Lowery and Sigelman (1981) Understanding the Tax Revolt: Eight Explanations. The American Political Science Review Vol. 75, No. 4 	<p>Response paper 5: Why are tax expenditures such a peculiar feature of the American tax system?</p> <p>Final deadline for signing up for a country team on Blackboard is September 29.</p>
7	Project week	Oct. 6. Analyzing budget data + individual feedback for group members of Argentina 1 Greece 1 Ireland 1 Italy 1 Japan 1	Oct. 8 Presenting budget data + individual feedback for group members of Argentina 2 Greece 2 Ireland 2 Italy 2 Japan 2	<p>This week, you are expected to work on and discuss with me your first project and start thinking about your second (possibly team-based) project.</p> <p>For your first project, you will compile a report on the public finances of a country of your choice (other than the US). What does this country spend on? What sort of taxes does it employ to get its revenues? Do revenues cover its expenditures? How indebted is this country? How do the public finances of this country compare to other countries? What are some political problems surrounding public finances in this country? Make sure to include informative tables and/or graphs to illustrate the most important points of your analysis.</p>		Rough draft of first project paper (not graded)
8	Debt	Oct. 13. Trends in public debt	Oct. 15. How much debt is too much?	<ul style="list-style-type: none"> • Tanzi and Schuhknecht (2000) Public spending in the 20th century: a global perspective, Ch 3 • Ostry, Gosh, Kureshi (2010). Fiscal Space. IMF Staff Position Note SPN/10/11 	<ul style="list-style-type: none"> • Buiter (2003). Fiscal Sustainability. Paper presented at the Egyptian Center for Economic Studies • Reinhart, Rogoff and Savastano (2003). Debt Intolerance, Brookings Papers on Economic Activity • Reinhart and Rogoff (2010). Growth in a Time of Debt. Paper 	<p>Response paper 6: What are Ostry, Gosh and Kureshi trying to do? Why is their work interesting and/c important?</p> <p>+ First project (Country report) due latest by 12 midnight October 12.</p>

					<p>prepared for the American Economic Review Papers and Proceedings</p> <ul style="list-style-type: none"> The Colbert report on Growth in a Time of Debt: http://www.colbertnation.com/the-colbert-report-videos/425748/april-23-2013/austerity-s-spreadsheet-error 	<p>+ Report on your progress with your second project: half a page of what you have done so far + schedule of work to be done + bibliography of the sources you are preparing to use (not graded)</p>
8	Understanding debt accumulation	Oct. 20. Why do countries	Oct. 22. How to carry out fiscal adjustment?	<ul style="list-style-type: none"> Barta (2012) Flirting with Disaster, Ch 1 Alesina, A. and A. Drazen (1991). "Why are Stabilizations Delayed?" The American Economic Review Vol. 81(No. 5.): pp. 1170-1188. 	<ul style="list-style-type: none"> Woo (2003) Economic, political, and institutional determinants of public deficits Journal of Public Economics (87) Alesina and Perotti, Roberto (1996) Fiscal discipline and the budget process. The American Economic Review; May 1996 Eichengreen (1999) Institutions for Fiscal Stability CesIFO Alesina, A., R. Perotti, et al. (1998). "The political economy of fiscal adjustments." Brookings Papers on Economic Activity 1: 197. Easterly, de Haan and Gali (1999) When Is Fiscal Adjustment an Illusion? Economic Policy 14(28) 	<p>Response paper 7: Why do countries borrow?</p> <p>+ Second project progress report : half a page of what you have done so far + schedule of work to be done bibliography of the sources you are preparing to use (no graded)</p>
9	External influences – The markets	Oct. 27. Risk premia	Oct. 29. Credit rating agencies	<ul style="list-style-type: none"> Baldacci and Kumar (2010) Fiscal Deficits, Public Debt, and Sovereign Bond Yields, IMF Working Paper Sinclair, T (2008) The New Masters of Capital Ch. 1 	<ul style="list-style-type: none"> Ford and Laxton (1999) World Public Debt and Real Interest Rates, Oxford Review of Economic Policy 15(2) Reinhart (2002) Default, currency crises and sovereign credit ratings S&P Sovereign Government Rating Methodology And 	<p>Response paper 8: What is the relationship between high public debt and interest paid on government bonds?</p> <p>+ Second project progress report: half a page of what</p>

9	External influences – The markets	Oct. 27. Risk premia	Oct. 29. Credit rating agencies	<ul style="list-style-type: none"> Baldacci and Kumar (2010) Fiscal Deficits, Public Debt, and Sovereign Bond Yields, IMF Working Paper Sinclair, T (2008) The New Masters of Capital Ch. 1 	<ul style="list-style-type: none"> Ford and Laxton (1999) World Public Debt and Real Interest Rates, Oxford Review of Economic Policy 15(2) Reinhart (2002) Default, currency crises and sovereign credit ratings S&P Sovereign Government Rating Methodology And Assumptions http://img.en25.com/Web/StandandandPoors/CriteriaGovernmentSovereignsSovereignGovernmentRatingMethodologyAndAssumptions_1365.pdf 	<p>Response paper 8: What is the relationship between high public debt and interest paid on government bonds?</p> <p>+ Second project progress report: half a page of what you have done so far + schedule of work to be done bibliography of the sources you are preparing to use (no graded)</p>
10	External influences – Inter/Supra-national organizations	Nov. 3. The IMF	Nov. 5. European mechanisms	<ul style="list-style-type: none"> Pop-Eleches (2009) From Economic Crisis to Reform: IMF Programs in Latin America and Eastern Europe Ch. 1 and 8. Lane (2012) The European Sovereign Debt Crisis. The Journal of Economic Perspectives, Vol. 26, No. 3 	<ul style="list-style-type: none"> Feldstein (1998) Refocusing the IMF . Foreign Affairs, Vol. 77, No. 2 (Mar. - Apr., 1998), pp. 20-33 Ostry and Zettelmeyer (2005) Strengthening IMF Crisis Prevention. IMF Working Paper WP/05/206 	<p>Response paper 9: How has the role of the IMF changed since its inception?</p> <p>Second project paper due 12 midnight November 2.</p>
13	Country cases (team projects)	Nov. 10. Ireland	Nov. 12. Japan			
14	Country cases (team projects)	Nov. 17. Italy	Nov. 19. Argentina			
15	Country cases (team projects)	Nov. 24. Greece	Nov. 26. No class Thanksgiving			
16	Public finance	Dec. 1.	Dec. 3.			