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, recognize 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. 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 300 words by Monday midnight each week based on questions related to the week’s reading. (Please note that unexcused late submissions of the response papers will not be accepted, and missed response papers cannot be made up later.)

In week 6, 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.) Students will make themselves familiar with the fiscal situation of different countries that have had serious fiscal problems (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:
- attendance and class participation 5%
- response papers 20%
- first project (country report) 30%
- second project (problem countries) paper 35%
- second project (problem countries) presentation 10%

Readings

Readings will be made available on Blackboard. The reading for each week is listed in the weekly outline at the end of this syllabus.

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, Greece, Ireland, Italy or Japan) 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 two classes on how to best obtain and analyze fiscal data in order to facilitate the project.

The country report should be around 800-1000 words. The first draft of the report is due by midnight on Sunday, February 26. The second draft is due by midnight on Sunday, March 6. Each draft should be submitted via email. It serves as an alternative form of assessment instead of a midterm exam. Both drafts will receive feedback and a grade. The higher of the two grades counts towards your final grade, but only if you hand in both drafts. Failure to hand in either draft implies a zero on this assignment. There is a penalty on late submissions, resulting in a 10% reduction in your grade for each day of unexcused delay.
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 four 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.
- **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 and Italian 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, February 20, the latest.

The paper should be no longer than 3000 words. 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 first draft of the paper is due by midnight on Sunday, April 9 via email. The second draft is due by midnight on Monday, May 8. Both drafts will receive feedback and a grade. The higher of the two grades counts towards your final grade, but only if you hand in both drafts. Failure to hand in either draft implies a zero on this assignment. There is a
penalty on late submissions, resulting in a 10% reduction in your grade for each day of unexcused delay.

Presentations will take place in week 13 and 14. The presentation on Ireland will take place on Tuesday, April 18, Japan on Thursday, April 20, Italy on Tuesday, April 25 and Greece on Thursday, April 27. 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.
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<thead>
<tr>
<th>Wk</th>
<th>Topic</th>
<th>Tuesday</th>
<th>Thursday</th>
<th>Assignment due</th>
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<tbody>
<tr>
<td>1</td>
<td>Introduction</td>
<td>January 24</td>
<td>January 26</td>
<td>None</td>
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<td></td>
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<td></td>
<td>• Rubin (2010), The Politics of Public Budgeting Ch1</td>
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<td>2</td>
<td>Government spending</td>
<td>January 31</td>
<td>February 2</td>
<td>Response paper 1:</td>
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<td></td>
<td>Historical evolution</td>
<td></td>
<td>• Tanzi and Schuknecht (2000) Public spending in the 20th century: a global perspective, Ch 1, 2 and 5</td>
<td>Describe the historical expansion of government spending.</td>
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<td></td>
<td>Spending structure</td>
<td></td>
<td>• Tanzi and Schuknecht (2000) Public spending in the 20th century: a global perspective, Ch 1, 2 and 5</td>
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<td>3</td>
<td>Special aspects of spending</td>
<td>February 7</td>
<td>February 9</td>
<td>Response paper 2:</td>
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<td>Entitlements</td>
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<td>Pork-barrel, clientelism, corruption</td>
<td>Answer ONE of the following two questions:</td>
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<td>• Stokes (2009) Pork, by Any Other Name...Building a Conceptual Scheme of Distributive Politics</td>
<td>(a.) Why are entitlements a risky item of public finances?</td>
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<td>• Meyers: Handbook of Government Budgeting Ch 27</td>
<td>(b.) Where is the boundary between pork barrel spending and clientelism or outright corruption?</td>
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<td>4</td>
<td>Taxation</td>
<td>February 14</td>
<td>February 16</td>
<td>Response paper 3:</td>
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<td>Size of taxation</td>
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<td>Tax structure and political conflict</td>
<td>Answer ONE of the following two questions:</td>
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<td>• Adolino and Blake (2011) Comparing Public Policies, Ch 7</td>
<td>(a.) Describe some of the main historical trends taxation.</td>
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<td>• Meyers (1999) Handbook of Government Budgeting Ch 10</td>
<td>(b.) What are some of the most important characteristics of a tax system?</td>
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<td>5</td>
<td>Anomalies in taxation</td>
<td>February 21</td>
<td>February 23</td>
<td>Response paper 4:</td>
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<td></td>
<td>“Tax expenditures”</td>
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<td>Tax evasion and tax revolts</td>
<td>Why are tax expenditures such a peculiar feature of the American tax system?</td>
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<td>• Meyers (1999) Handbook of Government Budgeting Ch 11</td>
<td>Final deadline for signing up for a country project on Blackboard is February 20</td>
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6. **Project week**
   This week, you are expected to work on and discuss with me your first project
   - **February 28**
     - Analyzing budget data
     - + individual feedback on first drafts
   - **March 2**
     - Presenting budget data
     - + individual feedback on first drafts
   - **First draft of first project paper due latest by 12 midnight February 26**

7. **Debt**
   - **March 7**
     - Trends in public debt
   - **March 9**
     - How much debt is too much?
       - Ostry, Gosh, Kureshi (2010). Fiscal Space. IMF Staff Position Note SPN/10/11
   - **Response paper 5:**
     - What are Ostry, Gosh and Kureshi trying to do? Why is their work interesting and/or important?
     - + First project (Country report) due latest by 12 midnight March 6

8. **No class – Spring break**
   - **March 14**
   - **March 16**

9. **Why do countries borrow?**
   - **March 21**
     - Governance problems
   - **March 23**
     - Social conflict
       - Barta (2017) In the Red (Ch1)
   - **Response paper 6:**
     - Why do countries borrow?

10. **External influences – The markets**
    - **March 28**
      - Risk premia
    - **March 30**
      - Credit rating agencies
        - Sinclair, T (2008) The New Masters of Capital Ch. 1
    - **Response paper 7:**
      - What is the relationship between high public debt and interest paid on government bonds?

11. **External influences – Inter/Supra-national organizations**
    - **April 4**
      - The IMF
    - **April 6**
      - European mechanisms
    - **Response paper 8:**
      - How has the role of the IMF changed since its inception?
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<tr>
<th></th>
<th>Project week</th>
<th>April 11</th>
<th>April 13</th>
<th>First draft of second project paper due latest by 12 midnight April 9</th>
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<tr>
<td>12.</td>
<td>This week, you are expected to finalize your first project and prepare it for presentation.</td>
<td>How to write a good political analysis of public debt problems + individual feedback on first drafts</td>
<td>How to best present your results + individual feedback on first drafts</td>
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<td>13.</td>
<td>Country cases (presentations)</td>
<td>April 18</td>
<td>April 20</td>
<td>Response paper 9a: Read project papers on Blackboard and ask a question from each author that is relevant to their topic but is not answered in their paper.</td>
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<td>Ireland</td>
<td>Japan</td>
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<td>14.</td>
<td>Country cases (presentations)</td>
<td>April 25</td>
<td>April 27</td>
<td>Response paper 9b: Read project papers on Blackboard and ask a question from each author that is relevant to their topic but is not answered in their paper.</td>
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<td>Italy</td>
<td>Greece</td>
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<td>15.</td>
<td>Public finance in the US</td>
<td>May 2</td>
<td>May 4</td>
<td>Response paper 10: How serious is the US’s debt problem? What can/should be done about it?</td>
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<td>US – debt and deficit</td>
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<td>• Crotty (2012) The great austerity war: what caused the US deficit crisis and who should pay to fix it? Cambridge Journal of Economics</td>
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<td>US – the deficit ceiling, the sequester and government shutdowns</td>
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<td>16.</td>
<td>Conclusion</td>
<td>May 9</td>
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<td>Second draft of second project paper due latest by 12 midnight May 8</td>
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<td>Conclusion</td>
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