This course explores the role of urban governments in the economy, their relationship to their suburban and rural neighbors and to the state and federal governments. Both the sources and uses of funds will be considered, including the relative merits of different tax instruments, and the implications of alternative spending decisions for equity and efficiency and the political economy of public decisions.

Most of this course is concerned with the analysis of policy issues in the financing of publicly provided services in large urban areas in the U.S. The analysis, and the readings, will be based on the approaches found in the literature of public economics--with its focus on equity and efficiency in resource allocation--and of urban economics--with its focus on the location of people and economic activity within and among urban areas. The course will begin with a review of the setting within which urban fiscal problems must be resolved: the special character of public finance in metropolitan communities, the nature of demand for public services in urban areas, and the roles of the complex networks and layers of governments. The second segment will deal in detail with the various ways in which governments in metropolitan areas raise funds to meet these demands and the
implications for equity and efficiency. We will then focus attention on a set of policy debates in public economics and finance facing urban governments today.

This course has P11.1018 Microeconomics as a prerequisite. Familiarity with the contents of these courses will be presumed. I also suggest P11.2140 Public Economics and Finance. These may be taken concurrently and, in some cases, students may find Urban Economics is a good substitute for Public. The course will make extensive use of the text, *State and Local Public Finance, third edition* by Ronald C. Fisher.

**Course objectives:** Most of you will have taken Wagner finance courses that deal with the subjects covered in this course, especially Public Economics and Finance and Urban Economics. But this course deals with some of those subjects in more detail, notably fiscal federalism, the fiscal consequences of governmental structure, and local government tax instruments. (However, the course is not a financial management course, so don’t expect the focus to be on tax administration as such.) Also, the main tax policy issue is the local one: how do different tax instruments affect local economies? But we can minimize duplication best if you let me know, in one way or another, when you think there is too much duplication of what you’ve already studied.

NOTE: You should regard this syllabus as flexible and subject to change – with notice – as the semester progresses and in response to the preferences, capacity and needs of the class participants (including the instructor!) If, for example, the prior preparation of the class in public economics is strong and we are able to move quickly at the outset, we may add topics. Alternatively, if the syllabus is overly ambitious (and it may well be) then we can adjust.

**Required Text:**

Ronald C. Fisher *State and Local Public Finance* Third Edition Thomson South-Western

A schedule of readings from the textbooks follows below. Additional readings will be assigned in class and, where possible, posted on the blackboard site. For class 2, you should also read the New York City Independent Budget Office’s *Fiscal Outlook December 2009* and *New Yorkers on the Move 1989-2007: Where They Came from, Where They Went* which are available on the IBO website www.ibo.nyc.ny.us/.

**COURSE REQUIREMENTS**

There are three graded assignments for this course.

First, there will be an in-class examination to be given in Class 8, worth 50% of your grade.

Second, a team project which will include both an in class presentation (as part of a policy debate) and a written final paper. The length of the paper will depend upon the size of the team. A two person team should have a paper of about 12 pages (without the
tables and figures). A three person team paper should be about 17 pages. (Doctoral students will write papers on their own). The project is worth 40% of your grade.

Third, you will have to submit 10 “One-Minute Emails,” each of which is worth 1% of your grade. The requirements are not too onerous. After class, write no more than a paragraph, in which you…

1. Tell me the one idea, concept, definition, whatever that you found most interesting or useful or new, in the class just ended.
2. Tell me the one thing that was most obscure or confusing or difficult, in the class just ended.

Email to me by 5:00 on the Friday following the class with the subject ONE MINUTE EMAIL CLASS X. (Of course, you should substitute the number of the class for the X each time to make it easy for us to see that you have submitted ten different emails.)

These will be graded on a “pass/fail” basis and submitting ten emails will be sufficient to earn ten points. Please note that this means you do not have to do MORE than ten and you can skip a few classes without jeopardizing your grade. No need to tell me. And don’t worry about hurting my feelings. Say what you really think.

Active participation in the class, especially in connection with discussions of the assignments, will be considered in assigning your course grade and may be influential at the margin, like converting a B+ into an A-.

SCHEDULE OF CLASSES, TOPICS, TEXTBOOK READINGS (Required) and suggested/recommended additional readings (optional):

**Class 1: Introduction to State and Local Public Finance, Review of Microeconomics**

Fisher Chapters 1 and 2

Independent Budget Office Fiscal Outlook December 2010

New York City Labor Market Information Service, *December 2010 Jobs Report for NYC Workforce & Education Providers*


Class 2: Understanding the Budget – Budget Rules and Limits; Review of Principles of Tax Analysis

In this class, we will consider the budget process of state and local governments, including the budgeting calendar, forecasting of revenues and expenditures, typical policies or rules that govern budgeting.

Fisher Chapters 11 and 12


Class 3: Public Choice and Demand for Public Services

Describes and explores the demand for public services and the translation of private demands into public decisions. Begin with public choice without mobility, the median voter theorem, and monopoly models of fiscal choice (Romer-Rosenthal); concludes with empirical evidence.

Fisher Chapters 3 and 4


Class 4: Public Choice and Demand with Multiple Jurisdictions

In this class we consider the demand for public services in a setting with mobility and multiple jurisdictions. Implications for efficiency, equity and segregation.

Fisher Chapter 5


**Class 5: The Cost of Public Services and the Organization of Government**

This class considers the economics of government size and organization. The role of demand and cost considerations are examined, empirical evidence and theoretical challenges are then explored.

Fisher Chapter 6 and 7

William J. Baumol “Health care, education and the cost disease: A looming crisis for public choice” *Public Choice* Volume 77, Number 1, 17-28


**Class 6: Non Tax Revenues 1: User Charges and Revenue from Government Enterprise**

In this class we examine the role of user charges and fees in public organizations, including both government and quasi-governmental settings.

Fisher Chapter 8, 18


**Class 7: Non Tax Revenues 2: Intergovernmental Aid**

This class considers the use of aid from state to local governments (including, but not limited to school districts) and from federal to state or local governments.
Class 8: Midterm Exam

Classes 9 and 10: The Property Tax – Equity, Efficiency and Administration

These two classes examines the characteristics of the property tax, in theory and in practice, current debates and evidence regarding equity, efficiency and tax administration. The class with conclude with a student led policy debate regarding property tax limitationss.

Fisher Chapter 13 and 14

DEBATE TOPIC: Should NYS Adopt Property Tax Limitations?

Readings TBA

Class 11 Taxing Goods: Sales and Excise Taxes

This class considers excise and sales taxes including taxes on gasoline, alcohol, cigarettes, etc. The class with conclude with a student led policy debate regarding gasoline taxation.

Fisher Chapter 15

DEBATE TOPIC: Should the Gas Tax be Raised?

Readings TBA

Class 12 Business and the State and Local Sector

In this class, we examine the role of the state and local government in promoting, fostering or regulating business activity. The class will conclude with a student led policy debate regarding business location.

Fisher Chapters 17 and 22

DEBATE TOPIC: Is Walmart Good for the City?
Readings TBA


Class 13  Budget Options for NYC: Guest Speaker from New York City Independent Budget Office

New York City Independent Budget Office (2010): IBO Report Examines More than 60 Options for Reducing Spending and Raising Revenue

Readings TBA

Class 14 Financing Education and Wrap Up
This class considers the way in which education is financed in the U.S. and conclude with a student led policy debate regarding state education aid.

Fisher Chapter 19

DEBATE: Should State Education Aid Cuts be Proportional?

Readings TBA
Class Schedule Fall 2011

September 6   Class 1
September 13  Class 2
September 20   Class 3
September 27  Class 4
October 4     Class 5
October 11    Class 6
October 18    Class 7
October 25    Class 8 Midterm Exam
November 1    Class 9
November 8    Class 10
November 15   Class 11
November 22   Class 12
November 29   Class 13
December 6    Class 14
December 13   Class 15, Final Paper Due