

COURSE SYLLABUS  
October 2013  
Government Finance Policy  
TESC

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Class meets   Friday October 11, 6:00 – 10:00  
                  Saturday, October 12, 9:00 – 5:00  
                  Sunday, October 13, 9:00 – 5:00

What is government finance?

Government finance can be reduced to essentials: getting and spending, and the criteria for what government ought to do and how to do it.

Right now government finance is in the news every day. Here are just a few examples:

- An immediate issue is the continuing recovery from the Great Recession, especially the stickiness of unemployment – the role of the Federal Reserve Board is just one aspect of this.
- The disagreement between the Republican-controlled US House of Representatives and the Democratic-controlled US Senate over ‘sequestration’ and, more broadly, what is the role of the government in the economy.
- The debt limit and the ‘price’ US House R’s want to have it raised in mid-October.
- In our own state, the Legislature has divided chambers – the House D and the Senate R-dominated. It has not been proven possible to raise new revenues. Are new revenues necessary?
- Cities across the country are in bankruptcy (Scranton, Detroit, for example) or are approaching bankruptcy. The consequences are slashed retiree pensions, reduced spending on public safety and closing or reducing hours for libraries, museums and other public services. An appalling statistic from Detroit is the average time for a police response to a 911 call is 58 minutes.

Of course public finance has a long history. Here are two quotes that illustrate a long-standing debate in this country:

- Here, from Daniel Webster arguing before the Supreme Court, is a view expressed in 1819:  
“An unlimited power to tax involves, necessarily, a power to destroy.”
- One widely cited rejoinder to this perspective, also involving the Supreme Court, is that of Justice Oliver Wendell Holmes, in 1928:  
“The power to tax is not the power to destroy while this Court sits.”

The material in this course is largely applied economics. My aim is to emphasize both the institutional side and the economic theory with, given the course structure, more of the former.

For this same reason I have limited to a minimum the amount of reading. I will not be assigning a government finance textbook. I will try to cover the theory in the lectures between the various guest speakers.

Your current or future employment may require you to be knowledgeable of government finance. My vision is for you, at a minimum, is to be able to effectively participate in a discussion of a potential expenditure or a revenue measure whether through your work, as a participant in some capacity in a nonprofit, or as an informed citizen. You should be able to provide some thoughtful insight to such a discussion.

## Evaluations

There will be an assignment to take home to do alone or in a small group.

## Attendance Policy:

This class meets over just one weekend. My minimum expectation for the award of credit is you will attend all three sessions, start to finish.

## ADA Statement

If you have, or think you may have, a disability (including an ‘invisible disability’ such as a learning disability, a chronic health problem, or a mental health condition) that interferes with your performance as a student in this class, you are encouraged to arrange support services and/or accommodations through the College’s disability services office. Disability-based adjustments to course expectations can be arranged only through this process.

## Academic Honesty

Students in this course are committed to the principle that academic honesty and integrity are important values in the educational process. Academic dishonesty in any form is a serious offense against the academic community.

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## Reading:

Numerous reports on state revenues are available from the state’s Department of Revenue site. Become familiar with these:

Comparative State and Local Taxes 2010 (Published January 2013)

[http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/stats\\_complislist.aspx](http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/stats_complislist.aspx)

Tax Statistics 2012 – (published December 2012)

[http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/stats\\_taxstats.aspx](http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/stats_taxstats.aspx)

2012 Property Tax Statistics - published July 2012

[http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/stats\\_proptaxstats\\_report.aspx](http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/stats_proptaxstats_report.aspx)

An Introduction to cost benefit analysis by Thayer Watkins

<http://www.sjsu.edu/faculty/watkins/cba.htm>

Tax Structure Study Commission (Gates Commission), Chapter 2, Tax Principles

[http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/WAtaxstudy/Chapter\\_2.pdf](http://dor.wa.gov/Content/AboutUs/StatisticsAndReports/WAtaxstudy/Chapter_2.pdf)

Become familiar with products of the Economic and Revenue Forecasting Council, see <http://www.erfc.wa.gov/forecast/>

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## Guest Speakers

Friday

Gary Robinson

Pierce County Budget and Finance Director

Saturday

Stan Marshburn

Former Director of the state's Office of Financial Management and former Secretary of the Department of Social and Health Services.

Mary Mulholland

Staff, House Appropriations Committee

Sunday

Steve Lerch

Executive Director and Chief Economist, Economic and Revenue Forecast Council

Denny Heck

Member of Congress, 10<sup>th</sup> District (WA)

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## Externalities

Questions for class discussion

Consider the seven possible consumption externalities, below.

- a. If you are wearing a scent, are you imposing an externality? What is the nature of the externality?
  - b. If you are a 'carnivore' and are practicing your carnivorousness in a restaurant, are you imposing an externality, on whom and what is its nature?
  - c. A person wears provocative clothing, on the revealing side. Does this clothing impose an externality on anyone – and, if so, on whom and what is the nature of that externality?
  - d. If you were to smoke, would you be imposing an externality? What is the externality? Who bears that externality?
  - e. If you ride a bike to commute or for recreation, would you be imposing an externality and on whom?
  - f. If you burn wood in your fireplace are you imposing an externality and on whom?
  - g. You have several cracks in windows in your house (or apartment) and you have not repaired them (or had them repaired). The cracks are visible from the street. What is the nature of the externality imposed by these cracks and on whom are they imposed?
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## Public Goods.

### Questions for Class Discussion

Consider the possible public goods, below. In addition to the questions raised in association with each question, answer these questions. Does this public good merit a public intervention? If so, why? If not, why not?

- a. In what respect(s) are the grounds of Evergreen a public good?
  - b. Capitol Lake seems like a public good. Yet, particularly for Lakefair, a portion of the grounds are enclosed and the crowds effectively limit public access. Since the exclusion principle applies, does this mean Capitol Lake is not a public good?
  - c. Your neighbor has a remarkably gaudy (even tacky) Christmas light display each year. A large number of cars are drawn into the neighborhood throughout December. Are there public goods here, and what are they?
  - d. A neighbor has a salt lick in his yard. He tells you that he has seen the most remarkable things, including coyotes and deer at the salt lick at the same time. Is there a public good here, and what is it?
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## Tax Equity

### Questions for Class Discussion:

- a. Who cares about tax fairness?
  - b. Who are the interest groups, if any, who are concerned about equity.
  - c. Who cares about adequacy?
  - d. Tax reduction may be another matter. Who is concerned about reducing taxes?
  - e. Is there an evident connection between taxes and public services?
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Final Assignment For completion by October 31. Pick one of two.

Please limit your response to a reasonable length. A plausible range in the papers is 5-10 pages. You can work with a partner. My expectation is a team assignment will be more comprehensive (though not necessarily longer) than an individual's.

1. Identify an actual city in this country that has been described as at or near insolvency or has or is near defaulting on its bonds. What problems brought the city to this point? What actions has the city (or its state or neighboring jurisdictions) taken? What are consequences of those decisions? What are lessons from what brought the city to this point and/or what actions have been taken to arrest or reverse the decline?
2. Washington State has a very unusual tax system. Describe a couple of reforms that you believe would improve the system and explain who your reforms would benefit and who would be adversely affected. Where might support for your reform(s) come from and where might the opposition come from?