Background: This one-quarter class in the economics of state and local governments covers topics such as property, sales, and income taxation, as well as nontax revenue sources such as lotteries and user fees; intergovernmental grants; education finance; capital projects and debt finance; and local economic development.

Goals of class: Use applied tools of microeconomics and simple data analysis to analyze spending and revenue-raising choices of state and local governments in the United States. Use Tiebout local public goods framework to motivate rationale for local government service provision. Throughout the quarter, students will be introduced to a variety of data sources commonly used to describe and analyze the fiscal choices and conditions of sub-national governments in the United States. Students completing this course will be able to:

- Review and analyze the economic factors shaping the structure of subnational governments in the United States.
- Assess the efficiency, equity and revenue productivity effects of income, sales and excise, and property tax and nontax revenue policy choices of subnational governments.
- Analyze the economics of selected locally provided services and programs (e.g., primary and secondary education; Medicaid; public safety; infrastructure).
- Assess the financial viability and policy reforms for state and local government pension programs.
- Assess the consequences of local economic development policies.
- Use publicly available datasets to investigate these topics.

Prerequisites: Pre-requisites for the courses are the two-quarter core sequence in microeconomics, PP32300 and PP32400, or their equivalent.

Relationship to Certificate in Municipal Finance: This course is required as part of the certificate program; see http://harris.uchicago.edu/centers/municipal-finance/certificate. Please note that students may NOT take this course pass/fail if they intend to complete this certificate.

Format of class: Oh boy! Roughly speaking:

- 45 to 60 minutes of prerecorded material each week
- 50 to 60 minutes of synchronous Zoom sessions, Mondays & Wednesdays, 9:10 am to 10:10 am, with Zoom office hours scheduled from 10:10 am to 10:30 am on those days
Special dates:

- Week 1: we meet only on Wednesday, September 30, via Zoom at 9:10 am.
- Weeks 2 through 8: we meet on Mondays and Wednesdays at 9:10 am
- Week 9: Thanksgiving week, no class meetings
- Week 10: we meet on Monday and Wednesday at 9:10 am
- Week 11: final papers due

Student assignments and exams: Students will be assessed on individual and group work efforts and products throughout the term. *Students taking the class pass/fail must complete all assignments and receive passing grades on all assignments to receive a “pass” grade for the course.* Late submissions will be penalized by 10% if received within 24 hours of the due date and time and by 20% if received within 48 hours of the due date and time. No work will be accepted beyond the 48-hour threshold. Here is a **tentative list of assignment types and weights:**

- Short in-class assignments and assessments (20%); for example,
  - Growth rates
  - Tiebout
  - Fiscal federalism
  - Inequality
  - Income taxation
  - Education funding
- Larger assignments (45%)
  - City finances (15%)
  - “Referee report” on a research paper (15%)
  - Medicaid (15%)
- Class participation (10%)
- Final paper (25%): students will be paired and choose a (state, city) pair to analyze--for example, state of Alabama and city of Birmingham, Alabama. Each team will prepare a fiscal assessment of its (state, city) pair in light of the current “triple threats” arising from the COVID-19 pandemic, the associated economic recession, and both chronic and acute failures of our public safety and criminal justice systems. Student teams will make recommendations for policy responses at the federal, state, and/or local levels.

Teaching assistants: Course TA’s are XYZ.

Teaching and learning remotely: In the current remote environment, using Canvas and other web-based resources will be essential. The university’s “Learning Remotely” website includes student-friendly FAQs, links to tech-related resources and policies, and so on, and I encourage you to become familiar with what is posted there. I will rely heavily on Canvas, and students are responsible for any and all material posted there. I encourage the use of email and try to respond in a timely fashion. **Please do not use the Inbox/Messaging feature of Canvas to communicate with me.** I also do not text, tweet, or Facebook message regarding course
matters, and I don’t even use Slack! So please check your UNIVERSITY OF CHICAGO email and CANVAS regularly.

Policies regarding recordings and access to course materials:

Please note that the University has developed specific policies and procedures regarding the use of video/audio recordings: these policies are explicitly described in the University’s student manual and its “Learning Remotely” website. The basic ideas are clear: By attending course sessions, students acknowledge that:

- They will not: (i) record, share, or disseminate University of Chicago course sessions, videos, transcripts, audio, or chats; (ii) retain such materials after the end of the course; or (iii) use such materials for any purpose other than in connection with participation in the course.
- They will not share links to University of Chicago course sessions with any persons not authorized to be in the course session. Sharing course materials with persons authorized to be in the relevant course is permitted.
- Course recordings, content, and materials may be covered by copyrights held by the University, the instructor, or third parties. Any unauthorized use of such recordings or course materials may violate such copyrights.
- Any violation of this policy will be referred to the Dean of Students.

Before turning to course-specific readings, schedules, and so on, I’d like to highlight key university and Harris School policies and practices in the key domains of academic integrity, serving students with disabilities, and diversity and inclusion. Key resources and full, up-to-date formal policies and procedures for the University are here, with Harris-specific materials available in Canvas via the Harris Student Handbook.

Academic integrity

Principles: All University of Chicago students are expected to uphold the highest standards of academic integrity and honesty. Among other things, this means that students shall not represent another’s work as their own, use un-allowed materials during exams, or otherwise gain unfair academic advantage.

- The University’s policies regarding academic integrity and dishonesty are described here. It is worth explicitly stating the University’s approach here: “It is contrary to justice, academic integrity, and to the spirit of intellectual inquiry to submit another’s statements or ideas as one's own work. To do so is plagiarism or cheating, offenses punishable under the University's disciplinary system. Because these offenses undercut the distinctive moral and intellectual character of the University, we take them very seriously.”
- The Harris School’s policies are available in the Harris Student Handbook Canvas site.
  - The Academic Honesty and Plagiarism section expresses the main principles.
  - Detailed guidelines for more specialized student work (e.g., problem sets including computer code) are also provided.
Specifically, Harris policies state that:
- All work submitted by a student must be the student's own original work.
- Students may not submit previously submitted work from one course (i.e., final paper) to fulfill the academic obligations in another course, unless the student has received permission to do so by the course instructor.
- Any works that are cited by the student as part of a greater work must utilize proper text and summary citations to properly identify the proper source(s).
- In the case of group work, students must be prepared to identify their individual contribution (including proper citations of original work cited) when requested by the course instructor.

Application of these policies to this class: In this course, you will complete numerous assignments, including short papers, data analyses, and other assessments.

- For papers, data analyses, and short analytical exercises, you may discuss your ideas and approaches with fellow students while working on the assignment outside of class. Further, I will provide occasional times during class when you may talk with your classmates about your assignments. However, you may not copy or directly duplicate the text, calculations, and/or approach of others. All submitted work (written work, tables, charts, calculations, etc.) must be prepared individually, any outside sources relied on must be cited, and all charts, graphs, and/or tables should include source details. If we find that two submitted pieces of work appear to be too “similar” to one another, we will investigate more fully and hold both students accountable to these standards.
- In general, I encourage you to consider using a citation manager program to help manage references and bibliographies in your professional lives (http://guides.lib.uchicago.edu/c.php?g=297307&p=1984557). Questions? Please contact me directly.

Consequences: Violation of these standards generates significant consequences. Students found to have violated the standards will receive a grade of 0 on the assignment in question and cannot earn higher than a B- in the course, regardless of their performance on other assignments and exams. Further, violators will receive a formal letter stating that the student has been found in violation of the code of academic honesty and listing the imposed sanctions. The letter, along with any evidence presented, is archived in Harris Student Affairs records until the student graduates if the student has no other violations. Students found in violation of the academic honesty policy are not permitted to withdraw from the course to avoid grade penalties from the instructor. Repeat offenses face stiffer potential penalties than do first-time offenses.

Process: If I or one of the course TA’s has reason to suspect a student has violated these academic integrity standards, I will report that suspicion to the Dean of Students, who will meet with me and the student as part of his/her investigation. In most cases, first offenses are adjudicated in this setting. In cases where plagiarism or academic dishonesty is egregious, the case may be referred to the Harris Area Disciplinary Committee even on a first offense. The Dean makes all decisions about which cases will go before the Area Disciplinary Committee.
Second violations are referred to the Harris Area Disciplinary Committee, described further here. If the student is found in violation of academic honesty a second time, the Area Disciplinary Committee can assign sanctions including transcript notes, disciplinary probation, suspension or expulsion from the University.

**Students with disabilities**

I welcome the opportunity to serve students with disabilities in this class. The University’s policies regarding students with disabilities are available here. Students who have disability accommodations awarded by the University Student Disability Services Office should inform the Harris Dean of Students office by the end of the first week of class. The Harris Dean of Students Office will work to coordinate the students’ accommodations implementation.

Harris students are not required to submit their accommodations letter to the instructor. Students from other divisions in the University must submit their accommodations letter to either the instructor or the Harris Dean of Students Office. Students who do not yet have formal accommodations in place but who feel they need accommodations on a temporary or ongoing basis should contact the Harris Dean of Students Office or Student Disability Services.

Finally, it is also worth noting that teaching in a remote environment may generate other questions and issues related to providing accommodations to students with disabilities. Some suggestions are available here.

**Diversity and inclusion**

The Harris School welcomes, values, and respects students, faculty, and staff from a wide range of backgrounds and experiences, and we believe that rigorous inquiry and effective public policy problem-solving requires the expression and understanding of diverse viewpoints, experiences, and traditions. The University and the Harris School have developed distinct but overlapping principles and guidelines to ensure that we remain a place where difficult issues are discussed with kindness and respect for all.

- The University’s policies are available here. Specifically, the University identifies the freedom of expression as being “vital to our shared goal of the pursuit of knowledge, as is the right of all members of the community to explore new ideas and learn from one another. To preserve an environment of spirited and open debate, we should all have the opportunity to contribute to intellectual exchanges and participate fully in the life of the University.”
- The Harris School’s commitments to lively, principled, and respectful engagement are available here: “Consistent with the University of Chicago’s commitment to open discourse and free expression, Harris encourages members of the leadership, faculty, student body, and administrative staff to respect and engage with others of differing backgrounds or perspectives, even when the ideas or insights shared may be viewed as unpopular or controversial.” We foster thought-provoking discourse by encouraging
community members not only to speak freely about all issues but also to listen carefully and respectfully to the views of others.

Readings and Schedule

There is no required textbook for this class. However, I encourage students to skim the general references listed below, namely Fisher’s State and Local Public Finance textbook ("Fisher") and the relevant selections from the Palgrave Dictionary of Economics ("Palgrave"). Relevant sections of those books are included in the reading list below:

- Fisher textbook (Fisher 2016)

For getting the basic facts about how states and localities raise and spend their money in the U.S., students should read relevant sections from the Tax Policy Center’s Briefing Book (Tax Policy Center 2020).

Finally, the reading list below includes not only these Fisher, Palgrave, and Tax Policy Center, but additional working papers, journal articles, policy briefs, etc. that you should read (or at least skim). Several of your assignments will also require you to read additional materials. Most items are available via live links in the references (at end of syllabus) or, in a few instances, posted as pdfs to Canvas; access to some of the items may require you to be on the University’s network (on campus or via VPN or proxy). Please note the reading list is arranged by topic; I will use Canvas and in-class announcements to update you on “where we are” in the reading list.

1. What do state and local governments do? What should they do?
   a. Fisher, Chapter 1.
   b. State of State (and Local) Tax Policy: “State and Local Revenues”
   c. City Fiscal Conditions (McFarland and Pagano 2020)
2. Principles of public finance
   a. Palgrave: “Public Finance”; “Local Public Finance”
   b. Fisher, Chapter 2.
3. Demand for local public services
   c. Brueckner, Jan K., Lectures on Urban Economics, Chapter 8, “Local Public Goods and Services” [posted to Canvas]; (Brueckner 2011)
4. Fiscal federalism: who should do what?
   a. Palgrave: “Fiscal Federalism”
   c. Shoag, Tuttle, and Veuger 2019)
   d. (Schultz and Cummings 2019)
   e. (Sharma 2020)
f. (Katz, Petrisin, and Noring 2020)
g. (Driessen and Hughes 2020)
h. (Organisation for Economic and Cooperative Development 2020, 19)
i. (Kreitner 2020)

5. Principles of taxation
b. Fisher: Chapter 12

6. Property taxation
a. Palgrave: “Property Taxation”, “Land Tax”
b. Fisher: Chapters 13 and 14
c. Backgrounders: “Property Taxes”
e. (Berry 2018)
f. (Moulton, Waller, and Wentland 2018)
g. (Lutz 2015)
h. (Lav and Leachman 2018)
i. (Davis 2018)
j. (Paquin and Kenyon 2018)

7. Sales and excise taxation
b. Backgrounders: “General Sales Taxes”, “Cigarette and Alcohol Taxes”
c. Fisher: Chapter 15.
e. State of State (and Local) Tax Policy: “How do state and local soda taxes work?”
g. (Marron and Morris 2016)
h. (Allecott, Lockwood, and Taubinsky 2019a)
i. (Allecott, Lockwood, and Taubinsky 2019b)
j. (Pew Charitable Trusts 2018)

8. Individual income taxation
a. Fisher: Chapter 16
d. (Rauh and Shyu 2019)
9. Taxation of business
   b. Fisher: Chapter 17
   c. Backgrounders: “Corporate Income Taxes”
   e. State of State (and Local) Tax Policy: “How do state and local severance taxes work?”
   f. (Brainerd 2018)

10. Taxation, growth, and the Tax Cuts and Jobs Act (TCJA) of 2017
    a. State of State (and Local) Tax Policy: “How does the deduction for state and local taxes work?”
    b. (Moretti and Wilson 2017)
    c. (Curtis and Decker 2018)

11. User fees and Congestion Charges
    b. Fisher: Chapter 9 (user fees) and Chapter 18 (monopoly, regulation)

12. Intergovernmental grants
    b. Fisher: Chapter 10
    c. State of State (and Local) Tax Policy: “What types of federal grants are made to states and local governments and how do they work?”
    d. (Dilger and Cecire 2019)
    e. (Gordon 2018)
    f. (Shambaugh and Nunn 2018)
    g. (Leduc and Wilson 2017)
    h. (Knight 2002)

13. Medicaid
    a. Backgrounders: “Health and Hospital Expenditures”
    b. Fisher: Chapter 21
    c. (Gruber and Sommers 2019)
    d. Rodowitz, Garfield, and Hinton 2019)
    e. (Ko and Bittler 2017)
    f. (Luthra 2017)
    g. (Goldstein 2019)
    h. (State of Tennessee 2019)
    i. Optional: (Solomon and Schubel n.d.)
14. Education finance  
   a. **Palgrave**: “Educational Finance”  
   b. **Fisher**: Chapter 19  
   c. **Backgrounders**: “Elementary and Secondary Education Expenditures”  
   d. (Cascio, Gordon, and Reber 2013)  
   e. (Barnum 2018)  
   f. (Barnum 2019)  
   g. (Belsha 2019)

15. Debt, borrowing, and capital  
   a. General: (Governing Institute 2016), (American Society of Civil Engineers 2017), (Chicago Metropolitan Agency for Planning 2019), (U.S. Congressional Budget Office 2018)  
   b. Debt: (Driessen 2018), (Tax Policy Center 2018), (Mishkin and Eakins 2015)  
   c. PPPs: (Macquarie Atlas Roads, Limited 2014), (Gilroy and Aloyts 2013), (Wee 2012), (Bondy 2016),  
   d. Indiana Toll Road: (Bipartisan Policy Center 2016)  
   e. Pennsylvania bridges: (Rapid Bridge Replacement Project 2018), (Vigna 2019), (Global Infrastructure Hub 2017), (Federal Highway Administration n.d.)

16. Economic development  
   a. Straight-ahead study of a specific program in one place at one time: (Freedman 2013)  
   b. Thorough, non-technical discussion of mechanics, case studies, impacts, benefits and costs of tax increment financing (TIF): (Merriman 2018)  
   c. SHORT example of work by Bartik, who has studied local economic development policies extensively: (Bartik 2018)  
   d. Blog post on Pennsylvania’s practices of evaluating its tax incentive programs, by reseachers at Pew Charitable Trusts: (Goodman, Wakefield, and Benz 2019)  
   e. Pew’s ranking of state tax incentive evaluation programs (Goodman and Chapman 2019)  
   f. Example of one state’s recent efforts to evaluate a specific tax incentive program: (State of Pennsylvania 2019)

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guidance-will-likely-invite-medicaid-waivers-that-posit-serious-risks-to.


https://www.tn.gov/content/dam/tn/tenncare/documents2/TennCareAmendment42.pdf.


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