PPUA 6530: STATE AND LOCAL PUBLIC FINANCE

Northeastern: School of Public Policy & Urban Affairs
Spring 2023

Contact Information
Course Instructor: Matthew B. Ross, Ph.D.
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Office Hours: Wednesday 9AM-12PM

Course Schedule
Semester Start/End Dates: Jan 09, 2023 - Apr 29, 2023
Meeting Day/Time: Tuesday 5:15 pm - 8:35 pm
Course Location: Richards Hall 239

COURSE DESCRIPTION

Analyzes the fiscal dimensions of state and local governments in the United States. Examines the types and ranges of tax and nontax revenues available to local and state governments and factors shaping the types of revenue sources utilized. Also assesses local and state government spending trends, use of public funds for economic development and other goals, impacts of federal mandates on local and state budgets, distinctions between operating and capital budgets, and the overall legal and political factors shaping public finance.

LEARNING OUTCOMES

By the end of this course, students will be able to:

- Master the concepts and tools of public finance.
- Apply the tools of public finance to state and local spending or taxation policies.
- Write a research brief that could be presented in an academic setting, to a government agency, to a legislative committee, or to an executive policy advisor.
- Discuss and present the latest empirical research in public finance orally to an audience.
- Obtain an understanding of how to provide others w/ constructive feedback.

COURSE MATERIALS

Required Materials

1. Jonathan Gruber, Public Finance and Public Policy, 4th, 5th, or 6th edition (2013, 2016, 2019). New York: Worth Publishers. [NOTE: I will use the newest edition. Students are welcome to use older editions, but it is their responsibility to identify the corresponding chapters.]
2. O'Flaherty, Brendan, City Economics. 1st edition (2005). Cambridge, Mass: Harvard University Press
3. Journal articles listed below and available through the Northeastern library.

GRADING AND ASSIGNMENTS

There two policy memos and one or more in-class presentations.

Assignment	Share of Grade
First Policy Memo	30%
Second Policy Memo	30%
Presentation(s)	35%
Flexible	5%

I recognize that students have different strengths and weaknesses. Therefore, I will assign the remaining flexible 5 percentage points onto either the presentation or one of the memos in order to maximize the student's overall grade. Moreover, a student's class participation will be considered as a positive factor when the student is just below the threshold for a specific grade.

Grading Scheme

Student grades will be assigned according to the following criteria:

- (A) Excellent: Exceptional work for a graduate student. Work at this level is unusually thorough, well-reasoned, creative, methodologically sophisticated, and well written. Work is of exceptional, professional quality.
- (A-) Very good: Very strong work for a graduate student. Work at this level shows signs of creativity, is thorough and well-reasoned, indicates strong understanding of appropriate methodological or analytical approaches, and meets professional standards.
- (B+) Good: Sound work for a graduate student; well-reasoned and thorough, methodologically sound. This is the graduate student grade that indicates the student has fully accomplished the basic objectives of the course.
- (B) Adequate: Competent work for a graduate student even though some weaknesses are evident. Demonstrates competency in the key course objectives but shows some indication that understanding of some important issues is less than complete. Methodological or analytical approaches used are adequate but student has not been thorough or has shown other weaknesses or limitations.
- (B-) Borderline: Weak work for a graduate student; meets the minimal expectations for a graduate student in the course. Understanding of salient issues is somewhat incomplete. Methodological or analytical work performed in the course is minimally adequate. Overall performance, if consistent in graduate courses, would not suffice to sustain graduate status in "good standing."
- (C/-/+) Deficient: Inadequate work for a graduate student; does not meet the minimal expectations for a graduate student in the course. Work is inadequately developed or flawed by numerous errors and misunderstanding of important issues. Methodological or analytical work performed is weak and fails to demonstrate knowledge or technical competence expected of graduate students.
- (U) Unsatisfactory: Work fails to meet even minimal expectations for course credit for a graduate student. Performance has been consistently weak in methodology and understanding, with serious limits in many areas. Weaknesses or limits are pervasive.

SCIENTIFIC AND PROFESSIONAL ETHICS

The work you do in this course must be your own. Feel free to build on, react to, criticize, and analyze the ideas of others but, when you do, make it known whose ideas you are working with. You must explicitly acknowledge when your work builds on someone else's ideas, including ideas of classmates, professors, and authors you read. If you ever have questions about drawing the line between others' work and your own, ask the course professor who will give you guidance. Exams must be completed independently. Any collaboration on answers to exams, unless expressly permitted, may result in an automatic failing grade and possible expulsion from the Program.

Students should be familiar with Northeastern's academic integrity policy and Honor Code. Academic dishonesty includes cheating, fabrication, plagiarism, unauthorized collaboration, participation in academically dishonest activities, and facilitating academic dishonesty. All members of the Northeastern University community— students, faculty, and staff—share the responsibility to bring forward known acts of apparent academic dishonesty. Any member of the academic community who witnesses an act of academic dishonesty should report it to the appropriate faculty member or to the director of the Office of Student Conduct and Conflict Resolution. The charge will be investigated and if sufficient evidence is presented, the case will be referred to the Northeastern University Student Judicial Hearing Board. Visit www.northeastern.edu/osccr for a full description of these policies and procedures.

ACCOMMODATIONS

Students should notify the professor within the first three class periods of their need for accommodations. Such requests should be accompanied by the appropriate paperwork from the Disability Resource Center. As noted in the handbook: Northeastern University and the Disability Resource Center (DRC) are committed to providing disability services that enable students who qualify under Section 504 of the Rehabilitation Act and the Americans with Disabilities Act Amendments Act (ADAAA) to participate fully in the activities of the university. To receive accommodations through the DRC, students must provide appropriate documentation that demonstrates a current substantially limiting disability. Accommodations are provided based on an evaluation of the information provided by students and their clinicians, on a case-by-case basis. Students should provide documentation to the DRC at their earliest convenience to allow for sufficient time for review. After the documentation has been reviewed, a disability specialist will contact the student regarding appropriate next steps. For additional information on the DRC, visit their website at

MANDATORY REPORTING

Title IX of the Education Amendments of 1972 protects individuals from sex or gender-based discrimination, including discrimination based on gender-identity, in educational programs and activities that receive federal financial assistance. Northeastern's Title IX Policy prohibits Prohibited Offenses, which are defined as sexual harassment, sexual assault, relationship or domestic violence, and stalking. The Title IX Policy applies to the entire community, including male, female, transgender students, and faculty and staff. Alleged violations can be reported non-confidentially to the Title IX Coordinator within The Office for Gender Equity and Compliance at: titleix@northeastern.edu and/or through NUPD (Emergency617.373.3333; Non-Emergency 617.373.2121). Reporting Prohibited Offenses to NUPD does NOT commit the victim/affected party to future legal action.

COURSE SCHEDULE

<u>January 17th: Theory of Public Finance, Part 1</u>

Required Readings

- Gruber, Ch. 1: Why study public finance?
- Gruber, Ch. 2: Theoretical tools of public finance.

- Gruber, Ch. 5: Externalities: Problems and solutions.
- Gruber, Ch. 6: Externalities in action: Environmental and health externalities.

<u>January 24th: Theory of Public Finance, Part 2</u>

Required Readings

- Gruber, Ch. 7: Public goods.
- Gruber, Ch. 8: Cost-benefit analysis.
- Gruber, Ch. 9: Political Economy
- Gruber, Ch. 10: State and Local Government Expenditures

<u>January 31st: Theory of Taxation</u>

Required Readings

- Gruber, Ch. 18: Taxation: How It Works and What It Means
- Gruber, Ch. 19: The Equity Implications of Taxation: Tax Incidence
- L. Kotlikoff and L. Summers. "Tax Incidence," in A. Auerbach and M. Feldstein, Handbook of Public Economics, Volume 2, Sections 2.2.1-2.2.3 and 2.3.
- Auerbach, "The Theory of Excess Burden and Optimal Taxation", in A. Auerbach and M. Feldstein, Handbook of Public Economics, Volume 1, 61-127. Amsterdam: North Holland, 1985. Sections 1, 2, 3.1, and 4.

<u>February 7th: Taxes & Labor Supply</u>

Required Readings

- Gruber, Ch. 20: Tax inefficiencies and their implications for optimal taxation.
- Gruber, Ch. 21: Taxes on labor supply.
- M. Feldstein, "Temporary Layoffs in the Theory of Unemployment," Journal of Political Economy 84 (October 1976), 937-958.
- R. Chetty, "Moral Hazard vs. Liquidity and Optimal Unemployment Insurance," Journal of Political Economy 116(2), 2008, 173-234.
- M. Feldstein, "The Effect of Unemployment Insurance on Temporary Layoff Unemployment," American Economic Review 65 (December 1978), 834-846.

<u>February 14th: State and Local Public Finance</u>

Required Readings

- Glaeser, Edward L. 2013. "Urban Public Finance." In Handbook of Public Economics, Vol. 5, eds. Alan J. Auebach, Raj Chetty, Martin Feldstein and Emmanuel Saez, 195– 256. Amsterdam: Elsevier

Eligible for Student Presentations

- J. Poterba. "Lifetime Incidence and the Distributional Burden of Excise Taxes," American Economic Review 79 (May 1989), 325-330.

- D. Albouy, "The Unequal Geographic Burden of Federal Taxation," Journal of Political Economy, vol. 117(4), pages 635-667, 08, 2009.
- Fajgelbaum, Morales, Suárez Serrato, and Owen Zidar. 2018. “State Taxes and Spatial Misallocation.” Forthcoming, Review of Economic Studies.
- Fajgelbaum, Pabl, and Cecile Gaubert. 2018. “Optimal Spatial Policies, Geography and Sorting,” working paper.
- R. F. Epple Dennis and T. Romer (1984). “Equilibrium among local jurisdictions: Toward an integrated treatment of voting and residential choice.” JPE 24.3, pp. 281–308
- Epple, Dennis and Holger Sieg (1999) “Estimating Equilibrium Models of Local Jurisdictions.” Journal of Political Economy 107, pp. 645-81.
- Rhode, Paul and Koleman Strumpf. “Assessing the Importance of Tiebout Sorting: Local Heterogeneity from 1850 to 1990,” AER 2003.

February 21st: Housing and Zoning

Required Readings

- O'Flaherty, Chap 6: Land
- O'Flaherty, Chap 13: Housing: The Big Picture

Eligible for Student Presentations

- Glaeser and Gyourko “Urban Decline and Durable Housing” Journal of Political Economy, 2005, vol. 113, issue 2, Pages 345-375. (read page 245-355)
- Quigley, John, and Steven Raphael, “Is Housing Unaffordable? Why Isn’t it More Affordable?” Journal of Economic Perspectives 18(2004): 191–214
- Session on Regulation and the High Cost of Housing American Economic Review 2005 Volume 95 Issue 2. Read all three short papers
    - Regulation and the High Cost of Housing in California (pp. 323-328) John M. Quigley, Steven Raphael.
    - Why Have Housing Prices Gone Up? (pp. 329-333) Edward L. Glaeser, Joseph Gyourko, Raven E. Saks.
    - Metropolitan-Specific Estimates of the Price Elasticity of Supply of Housing, and Their Sources (pp. 334-339) Richard K. Green, Stephen Malpezzi, Stephen K. Mayo.
    - Been, Vicki, Ingrid Gould Ellen, Michael Gedal, Edward Glaeser, and Brian McCabe. “Preserving History or Restricting Development: The Heterogenous Effects of Historic Districts on Local Housing Markets in New York City.” Journal of Urban Economics, 92(2016): 16-30.

February 28th: Housing Programs and Policy

Required Readings

- O'Flaherty, Chap 14: Housing and Poor People
- O'Flaherty, Chap 15: Homelessness

Eligible for Student Presentations

- Orelbeke, "The evolution of low-income housing policy" Housing Policy Debate, 2000, 11, 489-520. (Skim entire paper).http://www.tandfonline.com/doi/pdf/10.1080/10511482.2000.9521375
- Olson, "Voucher Policy from the Perspective of a Taxpayer Who Wants to Help Low-Income Households" Congressional Testimony Nov 29, 2001. http://banking.senate.gov/01_11hrg/112901/olsen.htm
- Diamond, Rebecca, Tim McQuade, and Franklin Qian. "The Effects of Rent Control Expansion on Tenants, Landlords and Inequality: Evidence from San Francisco." NBER Working Paper, 24181, pp. 1-18 plus conclusion.
- News and Analysis: Adam Davidson, "The Perverse Effects of Rent Regulation." New York Times, July 23, 2013; and Gary Painter, "No, Rent Control Doesn't Always Reduce the Supply of Housing." Los Angeles Times.

<u>March 7th: Household Sorting, Sprawl, and Gentrification</u>

Required Readings

- O'Flaherty, Chap 7: Too Many Cars? Too Much Lawn? Too Much Blight?
- O'Flaherty, Chap 8: Rules

Eligible for Student Presentations

- Burchfield, Marcy, Henry G. Overman, Diego Puga, and Matthew A. Turner, "Causes of sprawl: A portrait from space." Quarterly Journal of Economics 121(2006): 587–633.
- Mieszkowski, Peter and Edwin S. Mills, "The Causes of Metropolitan Suburbanization." Journal of Economic Perspectives 7(1993): 135-147.
- Baum-Snow, Nathaniel, "Did Highways Cause Suburbanization?" Quarterly Journal of Economics 122(2006): 775–805.
- Edlund, Lena, et al. 2015. Bright Minds, Big Rent: Gentrification and the Rising Returns to Skill (NBER Working Paper No 21729).
- Gordon, Peter and Harry W. Richardson, "Prove it: The Costs and Benefits of Sprawl." The Brookings Review (1998): 23–25.
- Brueckner, Jan, "Urban Sprawl: Diagnosis and Remedies." International Regional Science Review 23(2000): 160–171.
- News and Analysis: "Sprawl Can Be Beautiful if Cities Learn to Manage Growth." Bloomberg Businessweek, August 10, 2017.

<u>March 21st: Transportation</u>

TBD

<u>March 28th: Poverty, Race, & Outcomes</u>

Required Readings

- O'Flaherty, Chap 11: Race and Space

- O'Flaherty, Chap 12: Race and Policy

Eligible for Student Presentations

- Ross. "Social interactions within cities: Neighborhood environments and peer relationships" Handbook of Urban Economics and Planning (Eds. N. Brooks, K. Donaghy, G. Knapp). Oxford University Press (2011). (Read pages 204-218)
- Cutler and Glaeser, "Are ghetto's good or bad?" Quarterly Journal of Economics, 1997, 112, 827-882. (Read 827-830, 841-854)
- Chetty, Hendren and Katz. "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment." American Economic Review 106, no. 4 (2016): 855-902. (Read 855-861)
- Cutler, David, Edward Glaeser, and Jacob Vigdor, "The Rise and Decline of the American Ghetto," Journal of Political Economy 107(1999): 455–506.

April 4th: Crime & Policing

Required Readings

- O'Flaherty, Chap 16: Crime
- O'Flaherty, Chap 17: Drugs, Guns, & Alcohol

Eligible for Student Presentations

- Bayer, Hjalmarsson, Pozen, "Building Criminal Capital behind Bars: Peer Effects in Juvenile Corrections," The Quarterly Journal of Economics, 124 (2009), 105–147. (read pages 105-110, 118-122)
- Billings, Deming, Ross "Partners in Crime: Schools, Neighborhoods and the Formation of Criminal Networks" NBER Working Paper #21962 2016. (read pages 2-11, 14-19, see Figure 2 and Tables 4 and 6 at end of paper - pages 29, 34, 36).
- Machin, Marie, "Crime and Police Resources: The Street Crime Initiative," Journal of the European Economic Association, 2011, 9 (4), 678-701. (read pages 678-688)

April 11th: Education

Required Readings

- O'Flaherty, Chap 10: Education

Eligible for Student Presentations

- Angrist, Pathak and Walters. "Explaining Charter School Effectiveness," American Economic Journal: Applied Economics, American Economic Association, vol. 5(4), pages 1-27 (2013). (read pages 1-11)
- Fryer "Injecting Successful Charter School Strategies into Traditional Public Schools: A Field Experiment in Houston" NBER Working Paper No. 17494 (2011). (read pages 1-14, 21-25, Figure 2 p. 60, Tables 3-5 p. 65-68)

- Johnson, Jackson. “Reducing Inequality Through Dynamic Complementarity: Evidence from Head Start and Public School Spending” NBER Working Paper No. 23489 (2017). (read pages 1-5, 8-12, 22-26, Figures 4 and 5 p. 50-51,Tables 2 and 3 p. 45-46)

<u>April 18th: Agglomeration and Location Theory</u>

Required Readings

- O'Flaherty, Chap 2: Why Proximity is Good

Eligible for Student Presentations

- Carlino, Gerald. “Three Keys to the City: Resources, Agglomeration, and Sorting.” Business Review Q3, 2011.
- News and Analysis: Surowiecki, James. “Why Do Companies Like Company?” The New Yorker, April 24th, 2000.
- Puga, Diego. “The Magnitude and Causes of Agglomeration Economies.” Journal of Regional Science 50(2010).
- Elison, Glenn and Edward L. Glaeser, “The Geographic Concentration of Industry: Does Natural Advantage Explain Agglomeration?” American Economic Review 89(1999): 311–316.

<u>April 25th: Economic Development & Place Based Policies</u>

Note: This class will occur during final exams week, and I will likely host it on Zoom instead of on campus.

Required Readings

- O'Flaherty, Chap 18: Urban Economic Development

Eligible for Student Presentations

- Kline, Patrick and Enrico Moretti. 2014. “People, Places, and Public Policy: Some Simple Welfare Economics of Local Economic Development Programs.” Annual Review of Economics 6: 629–662.
- Busso, Matias, Jesse Gregory and Patrick Kline. 2013. “Assessing the Incidence and Efficiency of a Prominent Place-Based Policy.” American Economic Review 103(2): 897- 957.
- Austin, Benjamin, Eduard Glaeser, and Lawrence Summers, 2018. “Saving the heartland: Placed-based policies in the 21st Century America.” Brookings Papers on Economic Activity Conference Draft.
- Glaeser, Edward and Joshua Gottleib. 2008. “The Economics of Place-Making Policies.” Brookings Papers on Economic Activity 2: 155-239.
- Bartik, Timothy. 1991. Who Benefits From State and Local Economic Development Policies? Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.
- Kline, Patrick and Enrico Moretti. 2014. “Local Economic Development, Agglomeration Economies and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority.” Quarterly Journal of Economics 129(1): 275–331