

Innovative Budgeting and Finance for the Public Sector

11.147J/11.487J – Spring 2013

Meeting time: Tuesdays 2pm - 5pm in Room 9-450A

Instructor: Dr. Gabriella Y. Carolini (carolini@mit.edu)

Office hours: 5-7pm Tuesdays, or by appointment, in my office (9-515).

Course Description

Governments across the globe grapple with adequately and effectively attending to public sector responsibilities for basic services with limited financial and human resources to do so. Particularly in the context of significant demographic shifts – both in terms of rapid population growth as well as shrinkage - governments are searching for innovative means of meeting public finance and planning challenges. This course provides an introductory framework for understanding typologies and methods of budgeting, accounting, and financial mobilization in the public sector. In addition to establishing financial literacy and familiarity with this basic tools portfolio, students will practice exercises to explore revenue and expenditure estimation strategies, build a knowledge base around how accounting systems and reports influence budgeting dialogues and perceptions of public sector health, and study cases to understand pioneering examples of funding mobilization via taxation, capital markets, and experimental experiences with mechanisms such as land-value capture. The practical nature of the subjects covered in this course requires full attendance and active participation from students.

Objectives

By the end of the semester, students will have a globally comparative foundation of reference in budgeting and financing experiences in the public sector. More specifically, students will be able to:

- Understand budgeting typologies and challenges in different income settings
- Conduct in-depth budgetary analyses;
- Connect data production (through accounting methodologies and objectives) to budget politics and fiscal health status.
- Formulate policy recommendations for funding budget requirements

Evaluation

A. Exercises (75%)*

*Please note that you will need access to Excel spreadsheets to complete assignments.

Students will complete three exercises (handed out in class) to establish fluency with:

- I. Estimation techniques for revenues and expenditures (25%) – Due March 5th
- II. Budgetary analysis (25%) – Due April 2nd
- III. Financial condition analysis (25%) – Due May 14th

B. Periodical analysis, Attendance, and Participation in Class (25%)

Full attendance in class and participation in class discussion is central to this practice-based course. In addition to the student's own initiatives in providing in-class feedback from assigned course readings, all students are required to identify and post **six periodic articles** on the Stellar Website – under Forum - that concern budgeting, accounting, and/or finance for the public sector. Students may choose which six (distinct) weeks to which they will contribute a news article for class discussion, but will be required to **post the article by 6pm on Sundays** before class meetings on Tuesdays. All students are required to check the Forum discussion and read the periodicals posted before class on Tuesday afternoon.

Course Readings

Almost all course readings will be available on the class Stellar site. However, there are several readings from one case study text, so I recommend you download the text from Amazon by renting it (definitely the more affordable option), or if you prefer, by purchasing it (n.b.: Follow the links on the site below to the Kindle download for rental or purchase – you do not need an actual Kindle; you can read the text on your pc).

<http://www.amazon.com/Budgeting-Financial-Management-Expanded-Administration/dp/0824708881>

I have also requested that the text be purchased and put on Reserve in the MIT Library. The text is:

Case Studies in Public Budgeting and Financial Management, Second Edition - Revised and Explained
Edited by Aman Khan and W. Bartley Hildreth
2003 CRC Press

I. Budgeting

Wk 1 - Feb. 5: Cycle Overview, Typologies, and Country Comparisons

Rubin, I. (2006) "The Politics of Public Budgets", Chapter 1, in *The Politics of Public Budgets: Getting and Spending*, Fifth Edition. CQ Press: Washington, D.C.

Lee, R. et al (2013) "Budgets and Budgeting Systems", Chapter 1, pp. 14-24, in *Public Budgeting Systems*. Jones and Bartlett Learning: Burlington, MA.

Premchand, A. (1998) "Budgetary Management in the United States and in Australia, New Zealand, and the United Kingdom", Chapter Four in *Handbook of Government Budgeting*, ed. R. Meyers. Jossey-Bass Press: San Francisco.

Grizzle, G. (2001) "Does Budget Format Really Govern the Actions of Budgetmakers?" in *Performance-Based Budgeting*, eds. G. Miller, W.B. Hildreth, J. Rabin. Westview Press: Boulder, CO.

Wk 2 - Feb. 12: Understanding, Projecting, and Challenges of Revenues

Chen, G. et al (2009) "First Steps in Revenue Estimating", Chapter 4 in *Budget Tools*. CQ Press: Washington, D.C.

Fleeter, H. and Lee Walker, L. (2003) "Revenue Forecasting", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Kyobe, A. and Danninger, S. (2005) *Revenue Forecasting—How is it done? Results from a Survey of Low-Income Countries*, IMF Working Paper Series, Fiscal Affairs Department WP/05/24.

Povoledo, E. (2013) "Italians Have a New Tool to Unearth Tax Cheats", in *The New York Times*, January 27, 2013.

Cowan, A.L. (2013) "Towns' Next Hit from Hurricane is to Tax Revenue", in *The New York Times*, January 24, 2013.

Wk 3 - Feb. 26: Understanding and Estimating Expenditure Requirements

Chen, G. et al (2009) "Preparing the Capital Budget", Chapter 5 in *Budget Tools*. CQ Press: Washington, D.C.

Wigfall, P. and Lynch, T. (2003) "Capital Budgeting Practices in Local Governments: A Comparative Study of Two States", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Steiss, A. (2003) "Procedures for Programming and Financing Capital Improvements", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Balassone, F. and Kumar, M. (2007) "Cyclicality of Fiscal Policy", in *Promoting Fiscal Discipline*, eds. M. Kumar and T. Ter-Minassian. International Monetary Fund: Washington, D.C.

Wk 4 - March 5: Budgetary Analysis: Searching for Equity and Efficiency

*****ASSIGNMENT 1 DUE*****

Bartley Hildreth, W. (2003) "Equity and Budgetary Analysis: Determining Fair Shares of Local-Option Sales Tax Revenue", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Carolini, G. (2013) "Perverting Progress? The Challenges of Implementing both Fiscal and Social Responsibility in São Paulo (1995–2010)", in *Urban Studies*, 50(2) 356–371.

Schick, A. (1990) "Budgeting for Results: Recent Developments in Five Industrialized Countries", in *Public Administration Review*, Vol. 50, January-February, pp. 26-34.

Caiden, N. (2010) "Challenges Confronting Contemporary Public Budgeting: Retrospectives/Prospectives from Allen Schick", in *Public Administration Review*, Vol. 70, Issue 2, pp. 203-210.

Stevenson, R. (2013) "Governors Push Bigger Reliance on Sales Taxes", in *The New York Times*, January 24, 2013.

Sachs, J. (2012) "Today's Challenges go Beyond Keynes", in *Financial Times*, December 17, 2012.

Wk 5 - March 12: Budgetary Analysis – Improving through Evaluative Power?

Cothran, D. (2001) "Entrepreneurial Budgeting: An Emerging Reform?", Chapter Eight in *Performance-Based Budgeting*, eds. G. Miller, W.B. Hildreth, and J. Rabin. Westview Press: Boulder, CO.

Easterling, C. N. (2003) "Performance Budgeting in Florida: To Muddle or Not to Muddle, That is the Question", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Fölscher, A. (2012) "Country experience with Programme and Performance Budget Reforms: 6 mini case studies", Paper presented at the *Collaborative Africa Budget Reform Initiative's 8th Annual Seminar: Budgeting for Results – Moving Towards Performance Budgeting*. <http://www.cabri-sbo.org/en/e-networking/blog/2-annual-seminars/185-seminar-papers-and-presentations>

Wk 6 - March 19: Guest Speaker – Readings TBA

Wk 7 - April 2: Budgetary Analysis – Innovating through Participation? Participatory Budgeting Exercises

*****ASSIGNMENT 2 DUE*****

Stripling, B. (2012) "Should Democracy be Direct?" in *Public Administration Review*, Early View/First Published Online: December 5, 2012.

Wampler, B. and Hartz-karp, J. (2012) "Participatory Budgeting: Diffusion and Outcomes across the World", in *Journal of Public Deliberation*, Vol. 8, Issue 2, Article 13.

Ganuza, E. and Baiocchi, G. (2012) "The Power of Ambiguity: How Participatory Budgeting Travels the Globe", in *Journal of Public Deliberation*, Vol. 8, Issue 2, Article 8.

Lerner, J. and Secondo, D. (2012) "By the People, For the People: Participatory Budgeting from the Bottom Up in North America," *Journal of Public Deliberation*: Vol. 8: Iss. 2, Article 2.

II. Accounting and Reporting

Wk 8 - April 9: Understanding Accounting Typologies and Financial Reports

Lee, R. et al (2013) "Financial Management: Accounting, Reporting, and Auditing", Chapter 12, pp. 397-437, in *Public Budgeting Systems*. Jones and Bartlett Learning: Burlington, MA.

Chan, J. (1998) "The Bases of Accounting for Budgeting and Financial Reporting", Chapter Fourteen in *Handbook of Government Budgeting*, ed. R. Meyers. Jossey-Bass Press: San Francisco.

Engstrom, J. (1998) "Understanding and Using Government Financial Statements", Chapter Five in *Handbook of Government Budgeting*, ed. R. Meyers. Jossey-Bass Press: San Francisco.

Wk 9 - April 23: Building Better National Accounts – and Why it Matters...

Jorgenson, D. and Landefeld, S. (2006) "Blueprint for Expanded and Integrated U.S. Accounts: Review, Assessment, and Next Steps", in *A New Architecture for the U.S. National Accounts*, eds. D. Jorgenson, J. Landefeld, and W. Nordhaus. University of Chicago Press: Chicago.

Nordhaus, W. (2006) "Principles of National Accounting for Nonmarket Accounts", in *A New Architecture for the U.S. National Accounts*, eds. D. Jorgenson, J. Landefeld, and W. Nordhaus. University of Chicago Press: Chicago.

Abraham, K. and Mackie, C. (2006) "A Framework for Nonmarket Accounting", in *A New Architecture for the U.S. National Accounts*, eds. D. Jorgenson, J. Landefeld, and W. Nordhaus. University of Chicago Press: Chicago.

Carolini, G. (2010) "The Tools of Whose Trade? How International Accounting Guidelines are Failing Governments in the Global South" in *Third World Quarterly*, Vol. 31, No. 3. Pp.:469-483.

III. Financial Mobilization

Wk 10 - April 30: Funding Local Capital Investments

Venkatachalam, P. (2008) "Innovative Approaches to Municipal Infrastructure Financing", in *Financing Local Government*, Commonwealth Secretariat: London, UK.

Paulais, T. (2012) "Financing Local Investments: A Review of Fundamentals", Pp. 24-62 **and** "Investment Financing Frameworks and New Funding Mechanisms", Chapter Four in *Financing Africa's Cities*. World Bank: Washington, D.C.

Peterson, G. and Kaganova, O. (2010) *Integrating Land Financing into Subnational Fiscal Management*, Policy Research Working Paper 5409, World Bank.

Peterson, G. (2009) *Unlocking Land Values to Finance Urban Infrastructure*, World Bank: Washington, D.C.***READ pp.55-102****

Wk 11 - May 7: Revenue trends in Taxation

Devas, N. (2008) "Local Government and Local Government Finance in England", in *Financing Local Government*, Commonwealth Secretariat: London, UK.

Youngman, J. (2011) *TIF at a Turning Point: Defining Debt Down*, Working Paper Lincoln Institute of Land Policy.

Sheffrin, S. (2010) "Fairness and Market Value Property Taxation", Chapter Eight in *Challenging the Conventional Wisdom on the Property Tax*, eds. R. Bahl, J. Martinez-Vazquez, and J. Youngman. Lincoln Institute of Land Policy, Cambridge, MA.

Bahl, R. and Wallace, S. (2010) "A New Paradigm for Property Taxation in Developing Countries", and "Commentary", in *Challenging the Conventional Wisdom on the Property Tax*, eds. R. Bahl, J. Martinez-Vazquez, and J. Youngman. Lincoln Institute of Land Policy, Cambridge, MA.

Tsui, S. (2008) "Alternative Value Capture Instruments: The Case of Taiwan", and "Commentary", in *Making the Property Tax Work*, eds. R. Bahl, J. Martinez-Vazquez, and J. Youngman. Lincoln Institute of Land Policy, Cambridge, MA.

Wk 12 - May 14: Assessing and Improving Fiscal Conditions

*****ASSIGNMENT 3 DUE*****

Pariser, D. and Brooks, R. (2003) "Determining the Full Cost of Residential Solid Waste Services", in *Case Studies in Public Budgeting and Financial Management*, Second Edition, Eds. A. Khan and W. Bartley Hildreth. CRC Press/Marcel Dekker: New York.

Brosio, G. (2012) *Reducing Reliance on Natural Resource Revenue and Increasing Subnational Tax Autonomy in Bolivia*, Inter-American Development Bank: Santiago, Chile.

Sato, M. and Boudreau, L. (2012) *The economics of disaster risk, risk management, and risk financing: Financial and Fiscal Impacts of the Great East Japan Earthquake*, World Bank: Washington, D.C.