**Budgeting and Fiscal Governance**

Winter 2019

Mondays, 9am

Lecturer: Izabella Barati-Stec

### 1. Aims, objectives and learning outcomes

The course covers matters ranging from designing and evaluating fiscal regimes, through revenue planning, to methods of distributing expenditures. A properly designed fiscal regime provides the resources needed to fund development, enhances the implementation of good budgeting practices provides opportunities to accelerate economic development and to reduce poverty.

Good fiscal regime designs can take various forms and evaluating the budgeting policy choices with their trade-offs is an essential skill for policy makers.

Students will learn how to make informed decisions and policy analysis, expenditure and revenue management - with an emphasis on tax policy. They will get an insight to cost-benefit analyses, institutional capacity building, borrowing rules and practices and the political economy considerations of the budgeting process.

Students’ time will be evenly divided between classroom lecture and group work, to help develop key practical and analytical skills. Participants will be exposed to case studies and interactive exercises and will assess how political dynamics shape budgeting practices. During classes we will also discuss the transparency deficits affecting many countries, explore their implications, and provide an update on remedy efforts.

**2. COURSE Policies**

**2.1. Teaching methods and philosophy**

Seminar format, with class discussion, cooperative learning. Students will receive a list of articles and they are free to choose the ones they find most interesting. They are expected to participate in the class discussions and introduce the papers that they have read and also, their thoughts about them.

Teaching is a holistic activity in which students and teachers cooperate with and learn from each other. During classes students learn to recognize, analyze and solve complex socio-economic problems while building their social and environmental awareness. I believe that cooperative learning has much greater and longer term effects than traditional teaching methods and is a great way of helping my students acquire the ability to work in groups, to rely on colleagues and to lead teams - competencies that are crucial in professional development. Through team work students learn to value the different views among them through the different approaches they bring when finding answers to public policy questions and problems. Working in teams they each contribute to reaching a common goal and also practice how to inspire less motivated team members to take responsibility and add value to the team work.

**2.2. Class attendance:** I expect students to come to the classes. If they miss classes not only will they not know the material, but they also deprive their classmates and me of learning from them, and we lose the benefit of their contribution.

**2.3. Readings:** You are expected to read the relevant material before class. Our in-class discussions will be more interesting and helpful if you have read the text before class. Assigned to each class students will find a list of papers and they should choose the ones they are most interested in. They must choose at least one, but all of them are excellent and useful materials – also for their thesis works.

**2.4. Electronic equipment:** In consideration of the class, please turn off all electronic equipment or switch them to the silent mode during class sessions.

**2.5. Office hours:** While many questions can be handled during class discussions, faculty office hours provide an opportunity for more in-depth discussion of particular issues or concerns. Students should not hesitate to make appointments with the instructor to discuss matters that may require more time than can be spent in a large classroom setting. Office hours are by appointment, and should be requested by email.

**Academic Discipline Rules**: CEU requires all students to adhere to high standards of integrity in their academic work. Students are expected to be familiar with all relevant university and departmental policies.

**3. Evaluation:**

One presentation (30%), one term paper (70%)

**Term paper guidelines**

Students should choose one of the following options:

* an overview of our topic and narrow it to a sub-field, a specific problem we discussed during the course, with extensive literature description and analysis
* prepare a case study in the field of Budgeting and Fiscal Performance
* any other approach, but must discuss its adequacy with the instructor.

Term papers must follow the referencing system of the Chicago Embedded Style, the most important elements of which are addressed in the course Academic Writing for Public Policy. For detailed information on correct citation please consult the 7th Edition of Turabian’s *A Manual for Writers* (available in the library).

**Evaluation of content**

**Formal Structure**

Addressee / target audience

Main argumentative line

Coherence / consistency

Clarity, use of language

**Analytical Content**

Definition of policy problem

Use of evidence/data

Analytical design

Accuracy of evaluation of policy options

Persuasiveness of recommendation(s)

**For late submissions points will be deducted according to the School’s Policy.**

**The deadline for submitting your paper will be announced by 15 April.**

**4. Grading:**

Grading will be done on a sliding scale

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| A | A- | B+ | B | B- | C | F |
| 93 or above | 85-92.9% | 76-84.9% | 68-75.9 | 59-67.9 | 50.1-58.9% | equal or less than 50% |

**5. Competencies**

At the end of this unit a successful student should:

|  |  |
| --- | --- |
| Knowledge and understanding | 1. Be familiar with the concepts and definitions of public policy and public finance, budgeting and PFM 2. Be familiar with key concepts of and approaches to the public finance through examples 3. Gain an in-depth knowledge of budgetary policies, transparency issues, effective public finances and special problems with respect to a particular topic of the student’s interest (written assignment) |
| Intellectual skills | 1. Be able to critically evaluate trends and concepts in this policy field 2. Be able to apply knowledge gained in the course to concrete policy issues |
| Practical skills | **Achieve improvements in:**   1. Reading comprehension and efficiency 2. Critical thinking 3. Reasoned argumentation |
| Transferable skills and personal qualities | 1. Gain experience through simulations and group work 2. Have increased intellectual rigor through intense debate 3. Be able to defend arguments and articulate positions |

**6. Topics by week and required readings**

**Week 1 - January 7**

The purpose of budgeting, Budgeting and PFM, Budgeting and intergovernmental fiscal relations

Readings:

* Almos Tassonyi (2002) Municipal Budgeting, Canadian Tax Journal Vol. 50, n
* Public Finance in Theory and Practice. Musgrave - Musgrave. New York. McGraw-Hill. Chapter 1, pg 3-14. Chapter 5. pg 59-72.

**Week 2 – January 14**

The process of budget making, fiscal planning, the system of financial reporting

* Readings: Shoulders, C., & FreeMan, R.. 2012. Government Financial-Reporting Standards: Reviewing the Past and Present, Anticipating the Future. In [The Oxford Handbook of State and Local Government Finance](http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199765362.001.0001/oxfordhb-9780199765362). Edited by Robert D. Ebel and John E. Petersen. Oxford University Press.

**Week 3 – January 21**

Budgeting methods: Incremental vs PBB

Through a case study

**Week 4 – January 28**

Operating budgets

Line-item

Performance

Program

Reading

* Schaeffer, 2003. Local Government Budgeting Toolkit. The World Bank.
* **Bird, Richard M. (2001) Setting the Stage: Municipal and Subnational Financial Management. in Maria E. Freire and Richard E. Stren, eds. *The Challenge of Urban Government: Policies and Practices*, (Washington: The World Bank) p.113-128 .**
* **Robinson, M. and J. Brumby (2005) “Does Performance Budgeting Work?” IMF Working Paper /05/210.**
* **Schaeffer, Michael (2000) The Budget and Public Sector Performance. World Bank, March 2000.**

**Week 5 – February 4**

Identifying revenue sources and estimates

Taxes and fees

State grants

Reading:

* Kitchen, H.M. and A. Tassonyi "Municipal Taxes and User Fees" in Tax Policy in Canada. 2012. In: Tax policy in Canada. Chapter: Municipal Taxes and User Fees.Canadian Tax Foundation. Ed. Heather Kerr, Ken McKenzie, Jack Mintz

**Week 6 - February 11**

Capital budgets, Components of the Capital Budget, Multi-year Capital Budget, Investment Planning, Project Identification and prioritizing, Cost-benefit analysis

Reading:

* Justin Marlowe: Capital Budgeting and Spending. In [The Oxford Handbook of State and Local Government Finance](http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199765362.001.0001/oxfordhb-9780199765362). Edited by Robert D. Ebel and John E. Petersen. 2012. DOI: 10.1093/oxfordhb/9780199765362.013.0024. Oxford University Press

**Week 7 – February 18**

Case study: HKS 168. (Buenos Aires, taxes, fees)

Questions:

1. What were the challenges faced by Mayor Juan Jose Alvarez and his team as they developed the first budget for the new municipality of Hurlingham?
2. What were the expected sources of revenues for Hurlingham? List the assumptions used to arrive at the budget estimates. Are these assumptions realistic?
3. What recommendations do you have for Mayor Alvarez?

**Week 8 – February 25**

Budgeting in resource rich economies

Reading:

-   David A. Fleming, Thomas G. Measham and Dusan ParedesUnderstanding the resource curse (or blessing) across national and regional scales: Theory, empirical challenges and an application\*

-  TAMAT SARMIDI, SIONG HOOK LAW and YAGHOOB JAFARI: Resource Curse: New Evidence on the Role of Institutions

**Week 9 – March 4**

Case study: HKS –Botswana: A diamond in the rough (study uploaded to e-learning)

Questions:

1. Is Botswana a success story?

2. What accounts for the country's performance?

3. Is this performance sustainable?

**Week 10 - March 11**

Investment finance, credit markets, creditworthiness.

Readings:

* Rodden, Jonathan, Gunnar Eskeland, and Jennie Litvack, eds. 2003. *Fiscal Decentralization and the Challenge of Hard Budget Constraints*. Cambridge, Mass.: MIT Press.
* Liu, Lili, and Michael Waibel. 2010. *Managing Subnational Credit and Default Risks*. WPS5362. Washington, D.C.: World Bank.
* Guess-Ma THE RISKS OF CHINESE SUBNATIONAL DEBT FOR PUBLIC, FINANCIAL MANAGEMENT. 2015. Public Admin. Dev. 35, 128–139

**Week 11 –March 18**

Transparency and accountability – remedies for transparency deficit

Readings:

* Liu, Lili, and Steven B. Webb. 2011. *Laws for Fiscal Responsibility for Subnational Discipline: International Experience*. WPS5587. Washington, D.C.: World Bank.
* Escolano, Julio, Luc Eyraud, Marialuz Moreno Badia, Juliane Sarnes, and Anita Tuladhar. 2012. *Fiscal Performance, Institutional Design and Decentralization in European Union Countries*. IMF Working Paper. WP/12/45. Washington, D.C.: International Monetary Fund.
* Krugman, Paul. 2011. Depression and Democracy. *New York Times*, New York Edition, December 12, page A23. (available online as well)
* Schaeffer, Michael & S. Yilmaz (2008) “Strengthening Local Government Budgeting and Accountability” Washington: The World Bank Policy Paper 4767. November 2008.

**Week 12 – March 25**

Wrap up class.