Cities in the developing world are grappling with the provision of basic services and infrastructure to their rapidly growing public populations. One major challenge is the limited fiscal resources to finance local public goods. In some countries, central authorities have implemented fiscal decentralization programs, hoping to mediate this problem by delegating certain taxing powers and spending autonomy to local governments. In practice, however, many central governments only want to shed spending responsibilities to local jurisdictions and are unwilling to give up their control over tax revenue sources. As a result, many local officials are under pressure to increase spending on local services and infrastructure but lack taxing powers to raise funds to carry out these mandates. In dealing with fiscal crunches, some local jurisdictions rely excessively on user fees or sales of state-owned land and assets to cover immediate financial shortfalls. Public assets were sold off without any long-term fiscal consideration. The urban poor who cannot pay the charges for local services are unable to get access to clean drinking water, medical care, police protection, and education.

The purpose of this class is to examine critically the idea of fiscal decentralization and its implications for urban public finance and budgeting in developing countries. We will explore a variety of local revenue sources and their tradeoffs. Using a political economy framework, we will examine the following questions:

1. Given a specific institutional environment, how should central-local fiscal relations and local budgets be structured?
2. How should responsibilities of providing public goods and services be assigned to different levels of government and their impacts on local government budgets?
3. What are the principles of tax assignment and their budgetary implications?
4. What are the local tax and non-tax revenue sources for financing urban public goods? More importantly, what are their trade-offs?
5. Besides taxation, what are the alternative revenue sources of local budgets? What are the pros and cons of debit financing and land-based financing mechanisms?
6. How could local governments in developing countries make the budgetary process participatory and inclusive?
Class Requirements and Grading

Readings:

Most readings are available on the class Web site with the exception of the * items, as indicated in the syllabus. These materials are available on class reserve at Rotch library.

Assignments:

There are two assignments for the class:

1. Weekly Summary of Assigned Readings (40 percent of the final grade—3.1 percent for each submission):
   Students are required to submit a short (2-page) summary of the weekly reading assignments. The summary should include:
   a. major arguments (or ideas) of the assigned readings;
   b. a critique of the arguments (or ideas) as related to your own experience; and
   c. your suggestions for improving the articles.

2. A Final Research Paper (or Proposal)
   Students will conduct a research project for the class. The product of the project could either be a research paper or proposal, depending on the interest and need of individual students. The project will be divided into three parts:
   a. A two-page proposal for a project topic is due on March 4, 2014 (10 percent of the final grade)
   b. A class presentation of the project at the end of the semester (25 percent of the final grade)
   c. A final paper (or research proposal) is due on May 15, 2014 (25 percent of the final grade)

I will be working with you at each stage of the process including the identification of a suitable topic, formulation of a research question, and design of the methodology.

Undergraduate Students:

There will be an additional one-hour weekly session for undergraduate students who are taking this course. This special session is designed for you to raise questions about the reading assignments and class discussion in a small group setting.

Grading:

Students will be graded according to the following weights:

- Weekly summary of assigned readings: 40 percent
- Proposal for project topic: 10 percent
- Class presentation: 25 percent
Final paper (or research proposal) 25 percent

Final grades are based on a weighted average for the term. Grade cutoff points are: A+ = 97-100%; A = 93-96%; A- = 89-92%; B+ = 85-88%; B = 81-84%; B- = 77-80%; C+ = 73-76%; C = 69-72%; C- = 65-68%; D+ = 61-64%; D = 57-60%; D- = 54-57%; F<53%

Prerequisites

There are no formal prerequisites for this class, and a prior understanding of public finance is not required. However, a microeconomics class similar to Planning Economics (11.202) will be helpful.

Disabilities

If you have a documented disability, or any other problem you think may affect your ability to perform in class, please see me early in the semester so that arrangements may be made to accommodate you.

Academic Misconduct

Plagiarism and cheating are both academic crimes. Never (1) turn in an assignment that you did not write yourself, (2) turn in an assignment for this class that you previously turned in for another class, or (3) cheat on an exam. If you do so, it may result in a failing grade for the class, and possibly even suspension from the college. Please see me if you have any questions about what constitutes plagiarism. Anyone caught cheating on an exam will be reported to the provost in line with recognized university procedures.
Class Topics and Schedule:

I: Roles of Public Finance and Budgeting

February 4  Introduction: Why Public Finance Matters? It relationships with Budgeting and Auditing

February 11 Public Finance and Budgeting Theories and Their Applications to Developing Countries

II: Theories of Central-Local Fiscal Relations

February 18 Monday schedule

February 25 The Tiebout Hypothesis, Fiscal Federalism, and Decentralization

March 4 Experiences of Fiscal Decentralization in Developing Countries

III: Budgeting Expenditure and Revenue in Developing Countries

March 11 Principles of Expenditure Assignments

March 18 Principles of Taxation

March 25 Spring Break

April 1 Indirect Taxes and Income Taxes

IV: City Governments’ Own-Source Revenues

April 8 Real Property Taxes

April 15 User Charges, Land-based Financing, and other Off-Budget Financing Mechanisms

April 22 Student Holiday

April 29 Principles of Intergovernmental Transfers and Subnational Government Borrowing
V: Purposes of Budgeting

May 6 Participatory Budgeting in Developing Countries

VI: Presentations of Class Projects

May 13 Project Presentations
Reading Assignments

Required readings are listed in the order of importance. Suggested readings are not required for the class. They act as references for advanced masters and doctoral students who may want to pursue a focus on public finance.

I: Roles of Public Finance


Required Readings:


Suggested Readings:


February 11 Public Finance and Budgeting Theories and Their Applications to Developing Countries

**Required Readings:**


**Suggested Readings:**


February 18   Monday schedule

II: Theories of Central-Local Fiscal Relations

February 25   The Tiebout Hypothesis, Fiscal Federalism, and Decentralization

**Required Readings:**


**Suggested Readings:**


March 4  Experiences of Fiscal Decentralization in Developing Countries

Required Readings:


Suggested Readings:


III: Budgeting Public Expenditure and Revenue in Developing Countries

March 11 Principles of Expenditure Assignments

**Required Readings:**


**Suggested Readings:**


March 18 Principles of Taxation

**Required Readings:**


**Suggested Readings:**


March 25 Spring break

April 1 Indirect Taxes and Income Taxes

**Required Readings:**


Suggested Readings:


IV: City Governments’ Own-Source Revenues

April 8 Real Property Taxes

Required Readings:


**Suggested Readings:**


April 15  
User Fees, Land-Based Financing, and Other Off-Budget Financing Mechanisms

**Required Readings:**


**Suggested Readings:**


April 22       Student Holiday

April 29       Principles of Intergovernmental Transfers and Subnational Government Borrowing

**Required Readings:**


**Suggested Readings:**


V: Purposes of Budgeting

May 6 Participating Budgeting in Developing Countries

**Required Readings:**


**Suggested Reading:**


VII: Presentations of Class Projects

May 16 Project Presentations