"My problem lies in reconciling my gross habits with my net income." Errol Flynn

This course will examine the problems of, and prospects for, financing the provision of public services through state and local governments. The course assumes a solid understanding of micro-economics and an ability to apply that understanding to solve numerically problems in property valuation, public budgeting, and fiscal design.

To give you a sense for how the course materials will be presented, I view cities as economic organizations not unlike a publicly held corporation. There are "shareholders" called owners (or renters) of residential land. Shareholder voting rights are not, however, in proportion to the value of shares owned but rather are simply in terms of one person-one vote. The "Board of Directors" of the "corporation" is elected by the resident-shareholders and is called the City Council. The Chairman of the Board -- appointed by the elected directors or elected directly -- is the Mayor. The Mayor and the City Council appoint a management team -- Managing Director (COO), Finance Director (CFO), Commerce Director (Head of Marketing?), and a group of managers for the city's various "product lines" of the business: street cleaning and maintenance, safety, education, recreation, libraries. Each service has a production relationship requiring labor, capital, and materials. The corporation finances it capital with equity (taxes) or debt (municipal bonds) and pays it labor a negotiated (union) or competitive (non-union) wage. Labor may own "shares" in the corporation (live in the city). The city-corporation "sells" its services to "customers" who buy those services with a "yearly contract" (taxes) or perhaps with a per unit fee (user charges). The customers includes the resident-shareholders -- most of the customers are shareholders -- but it can also include non-shareholders, the most important of which is business.

The primary economic purpose of city-corporations is to protect and enhance a region’s competitive advantage – a.k.a. "agglomeration" economies – through the provision of important services for residents and businesses: for example, infrastructures such as roads, ports, and communication systems and services with significant consumer interdependencies such as safety, environment and (depending on what you consider to be an "appropriate education") school services as well.
Each city-corporation is in direct competition with other city-corporations. If a city does not provide its services efficiently, then customers (residents and businesses) leave the city and go elsewhere. This leads to a fall in land values (share prices) and if revenues are not sufficient to pay for fixed costs (prior debt accumulated), then bankruptcy.

Countries which design their systems of "city (corporate) governance" well will encourage efficient cities. Efficient cities attract businesses and residents. Economic growth follows. However, if the system of city governance is poorly designed, then cities in that country (or state) cannot compete, residents and businesses exit, and growth declines. For example, one inefficient system of "city governance" regulates the city-corporation to provide poverty services for which the city organizational form is not well-suited. Good rules of city governance are equivalent to a good national policy towards cities.

To use the "language" of finance, well run cities require good internal management, favorable (at least neutral) rules for city governance, and informed and diligent shareholders. To use the language of public policy, well run cities require honest and well-trained leaders, appropriate federal and state policies, and informed voters. Good management and good policy are one and the same when it comes to managing and financing cities.

As an investor/shareholder (owner of real estate), lender (banks and bondholders), worker (teacher), or customer (resident or business), you have a vested interest in ensuring your city is well-run. This is a course in how to finance and manage a city-corporation to maximize your consumption benefits and/or investment returns.

**Assignments:** There will be two, two hour examinations: One will be scheduled for the middle of October (now most likely on October 21, in the evening) and the second at the end of November (now most likely on November 25, in the evening). There will be no scheduled final examination. Your course grade will be based on the sum of your two examination scores.

**How to Use the Bulk Pack:** Obviously I want you to read everything. You will, however, find overlap between the articles and class lectures, so to that degree they are substitutes – but not perfect substitutes. Perhaps the best way to use the readings is as a supplement to the lectures, and then when a topic strikes your fancy, read the articles more carefully. You will be responsible for readings not covered in class.

Finally, I have included several Class Lectures of more technical material in the Bulk Pack. You will be expected to bring those to class on the day we discuss the material. I will not have extra copies in class. Class Lectures are indicated below in bold.
O. Overview:


R.P. Inman, “Principles of Good Budgeting.”

I. Introduction: Why Cities? (September 8, 10)

A. The Cultural City


B. The Economic City


LECTURE NOTES 1: THE “ECONOMIC CITY”


C. The City and the Region


REFRESHER: NOTES ON REGRESSION ANALYSIS (Optional Extra Class)

II. Does Public Finance Matter? (September 15, 17, 22, 24)

A. Facts


B. Causes

C. Consequences


LECTURE NOTES 2: "FISCAL CRISES AND VALUES"

III. Urban Public Finance: The Ideal (September 29, October 1, 6, 8)

LECTURE NOTES 3: TIEBOUT COMPETITION

A. Technology and Public Goods


B. The Efficient Provision of Local Public Goods

“What Do Parents Value in Education,” The NBER Digest.


LECTURE NOTES 4: IMPACT FEES

C. Application: Capitalization


D. Application: Urban Sprawl


LECTURE NOTES 5: SUBURBAN SPRAWL

MIDTERM EXAMINATION I: Previous Midterm Examination with Answers. (OCTOBER 21)
IV. Urban Public Finance: The Reality (October 20, 22, 27)

A. Public Labor


LECTURE NOTES 6: PUBLIC EMPLOYEE UNIONS

B. Urban Poverty

“Why Poverty Persists,” NBER Digest.


C. Urban Crime


LECTURE NOTES 7: MANAGING URBAN CRIME

D. Keeping the Middle Class

LECTURE NOTES 8: DECISION TO EXIT

V. Restoring the Ideal: Service Provision (October 29; November 3, 5)

A. Technology of Service Provision (Education)


B. Managing The Technology (Education)

LECTURE NOTES 9: FISCAL MANAGEMENT OF SCHOOLS

“Top-Down:” No Child Left Behind


“Bottom-Up:” Parental Choice


VI. Restoring the Ideal: Taxation (November 10, 12)

A. Efficiency:

LECTURE NOTES 10: SPECIFYING AN EFFICIENT TAX STRUCTURE


B. Equity:

LECTURE NOTES 10: DISSECTING LOCAL TAX EQUITY


VII. Restoring the Ideal: Managing City Poverty (November 17, 19)


LECTURE NOTES 11: UNDERSTANDING THE ‘LIVING WAGE’


LECTURE NOTES 12: ECONOMIC DEVELOPMENT STRATEGIES

B. O’Flaherty, “Urban Economic Development,” (Chapter 18), City Economics.


VIII. Financing Cities in Developing Economies (November 24, December 1)

A. Fiscal Decentralization


LECTURE NOTES 13: CITY GOVERNANCE IN DEVELOPING ECONOMIES

B. The Hard Budget Constraint


MIDTERM EXAMINATION II: Previous Examination with Answers.  
(NOVEMBER 25)
IX. So, You Want to be the CEO? The Mayor’s Job (December 3)

“Old Style” Leadership:


“New Style” Leadership:


SOLVING THE MAYOR’S PROBLEM: SETTING THE TAX RATE