

**University of Wisconsin-Madison  
Robert M. La Follette School of Public Affairs**

**Public Affairs 974  
Section 2  
Spring 2011**

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***Topics in Public Affairs:*  
Financing Government in an Era of Growing Deficits**

The U.S. faces many challenges over the coming decades. Perhaps, paramount among them is a growing and ultimately unsustainable federal budget deficit. The core of the problem is that the costs of financing current entitlements, primarily Medicare, Medicaid, and Social Security, are projected to grow at a rate substantially faster than the growth rate of revenues (which are essentially tied to the growth rate of the economy). State and local governments also face long-run budget problems as the costs of maintaining core services and meeting existing pension and health care obligations are growing faster than the revenue sources used to fund them.

Closing these budget gaps without raising new revenues would lead to draconian cuts in government services including sharp reductions in spending on the military, education, health care, environmental protection, transportation, and a wide range of social services. As Henry Aaron, one of the nation's leading public finance economists recently said, "On January 27, 1996, President Clinton declared that 'The era of big government is over,' ...but [today] the era of big tax cuts is over. In fact, the era of tax increases is upon us."

This course addresses the deficit issue by exploring options for raising revenues at the federal, state, and local levels. Our focus will be on the reform of existing revenue sources so that they generate more revenues without discouraging economic growth or placing undue burdens on those with limited resources, and on the identification of new sources of revenue.

**Course Requirements:**

The course will be organized as a seminar. Students will be expected to come to class ready to discuss each week's topic and to actively participate in class discussions. During the course of the semester, we will organize several debates, and students may be asked to lead class discussion on particular topics. Early in the semester, in consultations with the instructor, each student will choose a topic for his or her seminar paper. Each student will be required to submit a draft version of his or her paper. After revisions, a final version of the paper will be presented to the class. There will be no exams.

**Course Materials:**

Textbooks: Joel Slemrod and Jon Bakija, *Taxing Ourselves; A Citizens's Guide to the Debate Over Taxes*, Fourth edition, The MIT Press, 2008. Available from the University Bookstore, 711 State St.

Additional readings: Additional required readings will available on electronic reserves or on the course web site, both accessible through *learn@UW*.

**Grading:**

Approximately 60 percent of the course grade will be based on the quality of your seminar paper, 20 percent on class participation, and 20 percent on other assignments, such as debates, leading discussion, and the presentation of you seminar paper to the class.

**Course Schedule and Assignments:**

The topics to be covered (listed below) should be considered as tentative. The syllabus may be adjusted as the semester progresses to reflect tax reform and revenue-raising proposals that emerge in Washington (and in state capitols) over the next few months. The list of readings and assignments that follows is incomplete. Some additional readings and specific assignments and due dates will be added.

<u>Week</u>	<u>Date</u>	<u>Topics and Assignments</u>
1	Jan. 19	Introduction: How bad is the long-run deficit problem Why tax increases must be part of the solution
2	Jan. 26	Introduction (continued) Is "catastrophic budget failure" in our future? A brief history of tax reform

**Reading assignment:** Slemrod and Bakija, Chapters 1 and 2.

Alan J. Auerbach and William G. Gale, "Déjà Vu All Over Again: On the Dismal Prospects for the Federal Budget," *National Tax Journal*, September 2010.

Leonard E. Burman, et al., "Catastrophic Budget Failure," *National Tax Journal*, September 2010.

Gene Steuerle, “Are You Paying Your Fair Share for Medicare?” *The Government We Deserve*, January 6, 2011.

David Leonhardt, “One Way to Trim Deficit: Cultivate Growth,” *New York Times*, November 16, 2010.

Jeffrey H. Birnbaum, “Taxing Lessons, 20 Years In the Making,” *Washington Post*, October 22, 2006.

**Assignment:** Read David Leonhardt’s *New York Times* article “O.K., You Fix the Budget,” (11/14/2010) and then click on the following link and then complete the online “budget puzzle.” Once you have finished, make a list of the spending and the revenue options you chose, and bring your list to class. Here’s the link:  
[http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html?ref= weekinreview](http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html?ref=weekinreview)

3 Feb. 2 Tax fairness

**Reading assignment:** Slemrod and Bakija, Chapter 3.

Thomas Piketty and Emmanuel Saez, “How Progressive is the U.S. Federal Tax System? A Historical and International Perspective,” *Journal of Economic Perspectives*, Winter 2007.

Katherine Lim and Jeffrey Rohaly, “Variation in Effective Tax Rates,” *Tax Facts* from the Tax Policy Center, (in *Tax Notes*, February 8, 1010).

4 Feb. 9 Taxes and economic growth

**Reading assignment:** Slemrod and Bakija, Chapter 4.

Jonathan Gruber, *Public Finance and Public Policy*, 2<sup>nd</sup> edition, pp. 545-568; 613-619; and 635-646.

5 Feb. 16 Tax simplification and tax compliance  
 An overview of the U.S. tax system

**Reading assignment:** Slemrod and Bakija, Chapters 5 and 2.

OMB, *Budget of the United States, Analytic Perspectives*, ch. 16, Tax Expenditures.

Rosanne Altshuler and Jacob Goldin, “The Opacity of Marginal Tax Rates,” *Tax Facts* from the Tax Policy Center (in *Tax Notes*, October 19, 2009).

Eric Toder, “Reducing the Tax Gap: The Illusion of Pain-Free Deficit Reduction,” Urban Institute-Brookings Tax Policy Center, 2007.

Andrew Johns and Joel Slemrod, “The Distribution of Income Tax Noncompliance,” *National Tax Journal*, September 2010.

6 Feb. 23 Comprehensive Tax Reform

**Reading assignment:** Slemrod and Bakija, Chapter 6.

IRS, National Taxpayer Advocate, Summary of Report to Congress, 2010 (released January 5, 2011).

Report of the National Commission on Fiscal Responsibility and Reform, *The Moment of Truth*, Chapter 2: Tax Reform, December 2010.

Report of the President’s Advisory Panel on Federal Tax Reform, *Simple, Fair, and Pro-Growth*, Executive Summary, November 2005.

The Debt Reduction Task Force, *Restoring America’s Future: Reviving the Economy, Cutting Spending, a Simple, Pro-Growth Tax System*, Bipartisan Policy Center, pp. 31-45 and Appendix A and B, November 2010.

Michael J. Gratz, “A Fair and Balanced Tax System for the Twenty-first Century,” Chapter 3 in *Toward Fundamental Tax Reform*, edited by Alan J. Auerbach and Keven A. Hassett.

7 Mar. 2 Broadening the Income Tax Base

**Reading assignment:** Slemrod and Bakija, Chapter 8

Eric J. Toder, Benjamin H. Harris, and Katherine Lim, “Distributional Effects of Tax Expenditures,” Urban-Brookings Tax Policy Center, 2009.

Lily L. Batchelder, Fred T. Goldberg, Jr., and Peter R. Orszag, “Reforming Tax Incentives into Uniform Refundable Tax Credits,” Policy Brief #165, The Brookings Institution, August 2006.

William G. Gale, “Tax Reform Options in the Real World,” Chapter 2 in *Toward Fundamental Tax Reform*, edited by Alan J. Auerbach and Keven A. Hassett.

- 8 March 9<sup>th</sup> The Tax Treatment of Housing

**Reading assignment:**

Richard K. Green and Andrew Reschovsky, "Using Tax Policy to Subsidize Homeownership," in *Efficient and Effective Subsidy for Community Development*, Boston: Federal Reserve Bank of Boston, 2011.

- 9 March 23<sup>rd</sup> Subsidizing Higher Education  
What To Do About the Alternate Minimum Tax (AMT)

**Reading assignment:**

Andrew Reschovsky, "Higher Education Tax Policies," in *The Effectiveness of Student Aid Policies: What the Research Tells Us*, edited by Sandy Baum, Michael McPherson, and Patricia Steele, The College Board, 2008.

Katherine Lim and Jeffrey Rohaly, "The Individual Alternative Minimum Tax: Historical Data and Projections," Urban-Brookings Tax Policy Center, October 2009.

Leonard Burman, et al., "Options to Fix the AMT," Urban-Brookings Tax Policy Center, January 2007.

- 10 March 30<sup>th</sup> Should We Eliminate the Estate Tax?

**Reading assignment:** Slemrod and Bakija, pp. 288-292.

Leonard E. Burman, Katherine Lim, and Jeffrey Rohaly, "Back from the Grave: Revenue and Distributional Effects of Reforming the Federal Estate Tax," Urban-Brookings Tax Policy Center, October 2008.

Lily L. Batchelder, "Taxing Privilege More Effectively: Replacing the Estate Tax with an Inheritance Tax," NYU Center for Law and Economics, July 2007.

- 11 April 6<sup>th</sup> Fundamental Tax Reform – Taxing Consumption  
The Flat Tax, The National Sales Tax, The X Tax

**Reading assignment:** Slemrod and Bakija, Chapter 7

Robert E. Hall, "Guidelines for Tax Reform: The Simple, Progressive Value-Added Consumption Tax," Chapter 4 in *Toward Fundamental Tax Reform*, edited by Alan J. Auerbach and Keven A. Hassett.

William G. Gale and Benjamin H. Harris, “A Value-added Tax for the United States: Part of the Solution, Urban-Brookings Tax Policy Center, July 2010.

Eric Toder and Joseph Rosenberg, “Effects of Imposing a Value-Added Tax to Replace Payroll Taxes or Corporate Taxes,” Urban-Brookings Tax Policy Center, March 18, 2010.

12 April 13<sup>th</sup> Tax Policies to Spur Employment Growth

13 April 20<sup>th</sup> How to Make the Property Tax More Acceptable?

John H. Bowman, et al., *Property Tax Circuit Breakers; Fair and Cost-Effective Relief for Taxpayers*, Policy Focus Report, Cambridge, MA, Lincoln Institute of Land Policy, 2009.

14 April 27<sup>th</sup> Seminar paper presentations

15 May 4<sup>th</sup> Seminar paper presentations