

**Fulbright Economics Teaching Program
Academic Year 2013-2014
Spring Semester**

COURSE SYLLABUS

PUBLIC SECTOR ECONOMICS

Teaching Team

Instructors:	Huynh The Du	duht@fets.vnn.vn
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Tutor:	Vu Duy Khanh	m6.khanhvd@fets.vnn.vn

Office Hours

	Monday	Tuesday	Wednesday	Thursday	Friday
Huynh The Du	15:30-17:00		15:30-17:00		
Do Thien Anh Tuan		15:30-17:00		15:30-17:00	
Vu Duy Khanh	17:00-18:30		17:00-18:30		

If you have a scheduling conflict with these regular office hours, please feel free to make appointments at other mutually convenient times.

Objectives of the Course

The course examines policy options, with their strategic trade-offs and operational implications, for the design and implementation of public sector roles and public interventions in an economy. The first part focuses on the public resource mobilization via three main sources including taxes, user charges and borrowing. The second part introduces the rationale for the public sector intervention, ways to correct market failures in a complete spectrum including: public sector production and provision, state-owned enterprises, private sector participation or public private partnership, and regulation. This part also analyses the political economy of the public sector, measurement of government intervention efficiency, the despair cycle: from the market failures to government failures and vice versa. The final part looks at the roles of different government levels and intergovernmental relations. The course emphasizes utilization of theoretical and applied techniques in a comparative context for evaluation of the impact of alternative resource mobilization and expenditure policies on efficient allocation, social equity, and economic stability.

Course Outline

I. Interventions of the Public Sector

- A. The Rationale for the Public Sector intervention
- B. Public Choice Theories
- C. The Political Economy of the Public Sector
- D. Public Sector Production and Provision
- E. Public-Private Partnership
- F. Government Social Protection Policies
- G. Public investment
- H. Assessment of Public Sector Performance
- I. Government Failure and Corrections

II. Public Resource Mobilization

- A. Introduction
- B. Economics of Taxation
- C. Taxation of Income, Wealth, and Consumption
- D. Tax Reform
- E. User Charges
- F. Tax Incentives, Compliance, and Enforcement
- G. History of Taxation in Vietnam
- H. Fiscal Balance, Deficit and Financing
- I. Public debt

III. Intergovernmental Relations

- A. Fiscal Decentralization
- B. Public investment decentralization
- C. Resource Transfers and Local Government Debt Financing
- D. Local Government Public Finance

Course Requirements and Assessment

- It is expected that participants will attend class regularly, actively participate in class discussions, and successfully complete all course written requirements. Please read the assigned readings before class, and come to class prepared to discuss these readings.
- There will be two problem sets, which may require the use of electronic spreadsheets like Excel. Participants will have one week to complete each problem set. In preparing the solutions to the problem sets, participants are encouraged to work in groups of three to four people, but they must write and submit their own individual answers.
- There will be twelve policy memos based on case studies which must be completed without consultation with other class participants. Participants will have one week to complete each policy memo.
- Assignments should be submitted by 8:20 a.m. on the due date. The teaching team will make every effort to return graded assignments, along with suggested solutions, to

students within a week from the day of submission. If there are any questions about the grading of the assignments, please feel free to arrange a meeting with the instructors of the course.

- Late submission is subject to penalty described under Section II.3.2 (Homework Assignments) in Student Handbook. Only under extenuating circumstances, at the discretion and with the permission of the instructor, can late submission be allowed.

Grades will be determined by:

Class participation	10%
Problem sets	10%
Policy memos	25%
Midterm exam	25%
Final paper/exam	30%

Main Required Course Texts

1. Alan Altshuler and David Luberoff (2003), *Mega-Projects: The Changing Politics of Urban Public Investment*, Brookings Institution Press and Lincoln Institute of Land Policy.
2. Jonathan Gruber (2011), *Public Finance and Public Policy*, MIT Press
3. Joseph E. Stiglitz (2000), *Economics of the Public Sector*, 3rd ed., Norton & Co.,
4. World Bank (2011), *Tax Reform in Vietnam: Toward a More Efficient and Equitable System*

Class Schedule

Part I: Intervention of the Public Sector

Class # 1 (01/26): Economic Rationale for Public Sector Roles and Interventions

- *Market failures due to market power, asymmetric information, externality, public goods, equality, macro imbalances.*
- *Correct market failures and mobilize resources for the public sector operation.*
- *The changing role of government in transitional economies*

Joseph E. Stiglitz (2000), Chapter 1

Huynh The Du (2013), The role and the nature of the state

POLICY MEMO #1 (THE BIG DIG) DISTRIBUTED, DUE ON 2/4.

Class # 2 (01/28): Public Choice

- *Differences between collective actions and individual actions*
- *Government models*

Huynh The Du and Do Thien Anh Tuan (2014), "Public Investment and Problem of Lobster Budget", pg. 1-6.

Joseph E. Stiglitz (2000), Chapter 7

Xuan Trung – Quang Thien (2005), *Dumping coal*, Excerpt in *Nights before Doi Moi*, Tuoi Tre Newspaper (distributed in class)

Class # 3 (02/02): Political Economy of the Public Sector

- *Importance of political factors in determining public policy*
- *Tradeoffs among conflicting economic, political, and social policy objectives*

Alan Altshuler and David Luberoff (2003), Chapters 3&8

Jonathan Gruber (2011), *Chapter 9*

The Economist (1999), *The Grabbing Hand*, February 13, 350(8106): 76.

POLICY MEMO #2 (SOEs IN VIETNAM) DISTRIBUTED, DUE ON 2/11.

Class # 4 (04/02): Case study (The Big Dig)

Alan Altshuler and David Luberoff (2003), *The Big Dig*, HKS case study.

POLICY MEMO #1 (THE BIG DIG) DUE.

Class # 5 (09/02): Public Sector Production and Provision of Goods and Services

- *Interventions to mitigate market failures*
- *Public and quasi-public goods*
- *The role of the SOE in several economies*
- *Role and Efficiency of SOEs*

Joseph E. Stiglitz (2000), Chapter 6 & 8

Vu Thanh Tu Anh (2010), *SOEs fall short of being driving force,* Saigon Economics Review

Class # 6 (11/02): Case study (SOEs in Vietnam)

Tran Que Giang and Vu Thanh Tu Anh (2012), *State conglomerates and SOE equitization in Vietnam*, FETP case study

POLICY MEMO #2 (SOEs IN VIETNAM) DUE.

POLICY MEMO #3 (PUBLIC SPENDING FOR EDUCATION IN VIETNAM)
DISTRIBUTED, DUE ON 3/9.

Class # 7 (3/02): Public investment in Vietnam

- *Public investment structure*
- *Preliminary Assessment of Public Sector Performance*
- *Policy Discussion: Public investment decentralization in Vietnam*

Vũ Thành Tụ Anh (2010), *SOEs without capability to lead*, Saigon Economics Review,

Vũ Tuấn Anh and Nguyễn Quang Thái (2011), *Public Investment in the last ten years*, Chapter 1 in *Public Investment*, Encyclopedia Publisher, pp. 13-101.

Class # 8 (03/04): Government Social Protection Policies

- *Social expenditures in developing and transitional economies*
- *Policy Discussion: Health and education expenditures in Vietnam*

World Bank (2005), *Vietnam: Managing Public Expenditure for Poverty Reduction and Growth – Public Expenditure Review and Integrated Fiduciary Assessment*, Vol. 1: Cross Sectorial Issues, “Executive Summary”

Jonathan Gruber (2011), *Chapter 11 & 12*

Paul Krugman (2005), *Confusions about Social Security*, The Economists' Voice: Vol. 2

Joseph Stiglitz (2005), *Securing Social Security for the Future*, The Economists' Voice: Vol. 2

POLICY MEMO #4 (CANCUN, MEXICO: WATER AND WASTEWATER
PRIVATIZATION) DISTRIBUTED, DUE ON 3/16.

Class # 9 (03/09): Case study (Public Spending for Education in Vietnam)

Do Thien Anh Tuan (2015), *Public Spending for Education in Vietnam*

POLICY MEMO #3 (PUBLIC SPENDING FOR EDUCATION IN VIETNAM) DUE.

Class # 10 (3/11): Public-Private Partnerships (PPP)

- *Rationale for private participation in infrastructure (PPI)*
- *Types of PSP/PPP*
- *Cases: Infrastructure PPPs in Vietnam*

Edward R. Yescombe (2007), *Chapter 1 & 2*, in *Public-Private Partnership: Principles of Policy and Finance*, Elsevier Ltd.,

Huynh The Du (2011), *Public-Private Partnership: A Wand?*, Saigon Economics Review

Antonio Estache (2005), *PPI Partnerships Versus PPI Divorces in LDCs*, Policy Research Working Paper 3470, World Bank

POLICY MEMO #5 ("DOI MOI" IN VIETNAM) DISTRIBUTED, DUE ON 3/23.

Class # 11 (3/16): Case study (CANCUN, MEXICO: WATER AND WASTEWATER PRIVATIZATION)

Gustavo Merino-Jarez and Carolina Gutierrez de Taliercio (2000), *Cancun. Mexico: Water and wastewater privatization in Mexico*, HKS Case No. 1593.0 and HKS Case Sequel No. 1593.1

POLICY MEMO #4 (CANCUN, MEXICO: WATER AND WASTEWATER PRIVATIZATION) DUE.

Class # 12 (3/18): The State Failures

- *Reasons of State failures*
- *The Unexpected consequences of government interventions*
- *Policy Discussion: The Government Failures and Macroeconomic Instability in Vietnam*
- David L. Weimer và Aidan R. Vining (2005), *Chương 8 & 10*, trong quyển *Phân tích chính sách: các khái niệm và thực tiễn*, 3rd ed., Pearson: Prentice Hall

Class # 13 (3/23): Case study ("Doi moi" in Vietnam)

- *"Doi moi" (or Renovation/Reform) in Vietnam*

Dang Phong (2009), *Fence Breaking Down*

Class # 14 (3/25): Review

TUESDAY, 3/31: MIDTERM EXAM

POLICY MEMOS DISTRIBUTED:

POLICY MEMO #6 (A CASE OF INDONESIA)	DUE ON 4/13
POLICY MEMO #7 (PERSONAL INCOME TAX IN VIETNAM)	DUE ON 4/14
POLICY MEMO #8 (TAXATION OF ALCOHOL IN THAILAND)	DUE ON 4/15
POLICY MEMO #9 (REFORM OF THE BIR IN THE PHILIPPINES)	DUE ON 4/16
POLICY MEMO #10 (FINANCING TRANSPORTATION IN PHILADELPHIA)	DUE ON 4/17

Part II: Public Resource Mobilization

Class # 15 (6/4): Economics of Taxation (1) (Đỗ Thiên Anh Tuấn)

- *Taxation and social fairness: a tax burden perspective*
- *Taxation and its economic inefficiency*
- *Features of a Sound Tax Regime*
- *Tax burden allocation*
- *Theory of optimal taxation*
- *Policy discussion: Examples from Vietnam*

Jonathan Gruber (2011), Chapter 1

Joseph E. Stiglitz (2000), Chapter 18

PROBLEM SET #1 (ECONOMICS OF TAXATION), DUE ON 20/4.

POLICY MEMO #11 (TRANSFER PRICING IN FDI ENTERPRISES IN VIETNAM), DUE ON 4/22.

Class # 16 (8/4): Economics of Taxation (2) (Đỗ Thiên Anh Tuấn)

- *Theory of optimal taxation*
- *Taxation and its economic inefficiency*
- *Policy discussion: Impacts of taxes on labors and savings*

Joseph E. Stiglitz (1988) Chapter 18, 19 & 20

Jonathan Gruber (2011), Chapter 20, 21 & 22

Class # 17 (13/4): Taxation of Wealth (Jay Rosengard)

- *Tax on land and buildings in general*
- *Policy discussion: non-agricultural land use tax in Vietnam*

WB (2011), Chapter 9: Tax on land and assets

*Jay K. Rosengard, "Introduction" Chapter 1 in *Property Tax Reform in Developing Countries* (Boston: Kluwer Academic Publishers, 1998), pp. 1-30.

Class # 18 (13/4): Case Study #6: A Case of Indonesia (Jay Rosengard)

*Jay K. Rosengard, "Indonesia Case Study," Chapter 5 in *Property Tax Reform in Developing Countries* (Boston: Kluwer Academic Publishers, 1998), pp. 111-156.

POLICY MEMO #6 (A CASE OF INDONESIA) DUE.

Class # 19 (14/4): Taxation of Income (Jay Rosengard)

- *Personal and corporate income tax in general*
- *Policy discussion: Personal and corporate income tax Reform in Vietnam*

Joseph E. Stiglitz (2000), Chapter 22& 23

Janet Stotsky, "The Base of the Personal Income Tax" and "The Choice of Taxable Unit" and John Norregaard, "The Progressivity of Personal Income Tax Systems" in

Parthasarathi Shome, ed., *Tax Policy Handbook* (Washington, D.C.: International Monetary Fund, 1995), pp. 121-136.

Class # 20 (14/4): Case Study #7: Thuế thu nhập cá nhân ở Việt Nam (Jay Rosengard)

Vu Thanh Tu Anh and Huynh The Du (2009), *Draft Law on Personal Income: More Harm! The Saigon Economics Times*.

POLICY MEMO #7 (PERSONAL INCOME TAX IN VIETNAM) DUE.

Class # 21 (15/4): Taxation of Consumption (Jay Rosengard)

- *General sales and companion use taxes, excise taxes, value added taxes*
- *Comparison of sales and value added taxes*
- *Policy discussion: Value Added Tax Reform in Vietnam*

WB (2011), Chapter 7: VAT

Jonathan Gruber (2011), Section 25.3: "Consumption Tax," pg. 754-763

Do Thien Anh Tuan (2012), *Value Added Tax Reform in Vietnam*

Class # 22 (15/4): Case Study #8: Taxation of Alcohol in Thailand (Jay Rosengard)

Aswin Techajareonvikul, *Liquor Tax Reform in Thailand: Competing Interests and Objectives*, KSG Case No. CR14-06-1857.0.

POLICY MEMO #9 (TAXATION OF ALCOHOL IN THAILAND) DUE.

Class # 23 (16/4): Tax Reform (Jay Rosengard)

- *Rationale for, obstacles to, and lessons of tax reform*
- *Independent revenue authorities*
- *Policy Discussion: Examples from selected countries*

Jonathan Gruber (2011), Chapter 25

*Joel Slemrod and Jon Bakija (2008). Chapter 6: "Elements of Fundamental Reform," *Taxing Ourselves*, Russell Sage Foundation.

*WB (2011). Chapter 5: Tax Reform and Revenue Assignments in Vietnam.

Class # 24 (16/4): Case Study #9: Reform of the BIR in the Philippines (Jay Rosengard)

*Reform of the BIR in the Philippines. Case Study of HKS.

POLICY MEMO #9 (REFORM OF THE BIR IN THE PHILIPPINES) DUE.

Class # 25 (17/4): User Chargers and Fees – A Framework (Jay Rosengard)

- *Taxes vs. user charges (fees)*
- *Types and structures of user charges*

Ronald C. Fisher, "Pricing of Government Goods: User Charges," in *State and Local Public Finance*, 3rd ed. (Chicago: Richard D. Irwin, 1996), pp. 170-196.

Do Thien Anh Tuan (2012). HCMC-Trung Luong Highway

Class # 26 (17/4): Case Study #10: Financing Transportation in Philadelphia (Jay Rosengard)

Mary Lovely, *Financing Transportation in Philadelphia*, Case study of HKS Number C16-81-476.

POLICY MEMO #10 (FINANCING TRANSPORTATION IN PHILADELPHIA) DUE.

Class # 27 (20/4): Tax Incentives, Compliance, and Enforcement (Huỳnh Thế Du)

- *Tax avoidance and tax evasion*
- *Positive and negative incentives*
- *Policy discussion: Examples from selected countries*

Joseph E. Stiglitz (2000), Chapter 24

WB (2011). Chapter 2: Tax Compliance and Sources of Revenue Leakage: Conceptual Framework and Assessment.

PROBLEM SET #1 (ECONOMICS OF TAXATION AND TAX INCENTIVES, COMPLIANCE AND ENFORCEMENT) DUE.

PROBLEM SET #2 (DIRECT AND INDIRECT TAXES), DUE ON 6/5.

Class # 28 (22/4): Case Study #11: Transfer Pricing in FDI Enterprises in Vietnam (Huỳnh Thế Du)

Do Thien Anh Tuan (2014), *Transfer Pricing in FDI Enterprises in Vietnam*, Case study of FETP.

POLICY MEMO #11 (TRANSFER PRICING IN FDI ENTERPRISES IN VIETNAM) DUE.

Class # 29 (4/5): History of Taxation in Vietnam (Phan Hiển Minh)

Phan Hiển Minh, Nguyễn Ngọc Thanh, and Châu Thành Nghĩa, "Overview of Taxation, Chapter I in *Practical Taxation Handbook*, (Hanoi, Vietnam: Statistics Press, 2001), pp. 1–10.

WB (2011) Chapter 8: Taxation In Vietnam: Who Pays What?

Class # 30 (6/5): Fiscal Balance and Public Debt (Đỗ Thiên Anh Tuấn)

- *Tradeoffs in maintaining a balanced budget*
- *Alternatives for financing fiscal deficits*
- *Public debt, government debt, and SOE debts*
- *Policy discussion: Fiscal Deficits and Deficit Financing in Vietnam*

Vu Thanh Tu Anh, "Public debt, government debt, and SOE debts."

Do Thien Anh Tuan (2013). The Future for Vietnam's Public Debt: Trends and Challenges.

Jonathan Gruber (2011), Chapter 4

Joseph E. Stiglitz (2000), Chapter 28

PROBLEM SET #2 (DIRECT AND INDIRECT TAXES) DUE.

Part III: Roles of the Government Levels and Intergovernmental Relations

Class # 31 (05/11): Fiscal Decentralization and resource transfer

- *Rationale for fiscal decentralization*
- *Deconcentration, delegation, devolution, and transfer of functions*
- *Measuring and evaluating fiscal decentralization*
- *Cases: Examples from selected countries and Vietnam*

Anwar Shah (2004), *Fiscal Decentralization in Developing and Transition Economies: Progress, Problems, and the Promise*, World Bank Policy Research Working Paper No. 3282

Vu Thanh Tu Anh (2012), *Economic Decentralization in Vietnam: An Institutional Perspective*.

POLICY MEMO #12 (DANANG AND BINH DUONG PUBLIC FINANCE MODELS)
DISTRIBUTED, DUE ON 5/18.

Class # 32 (05/13): Local Government Public Finance

- *Local revenue sources*
- *Deficit Financing*
- *Local budget expenditures*
- *Stability and sustainability of the local budget*

Jay Rosengard et al (2006), *Paying for Urban Infrastructure and Services: A Comparative Study of Municipal Finance in Ho Chi Minh City, Shanghai and Jakarta*, Prepared under United Nations Development Program Project No. 5088790-01, *UNDP-Vietnam Discussion Papers on Topics Relating to Decentralization and Economic Performance*

Ronald C. Fisher (2007), *Borrowing and Debt*, in *State and Local Public Finance*, 2nd ed., pp. 235 – 267

Do Thien Anh Tuan (2013), *Municipal Debt and Bond*, FETP case study.

Class # 33 (05/18): Case study

Vu Thanh Tu Anh and Dang Thi Manh (2012), *Da Nang and Binh Duong Public Finance Models*, FETP case study.

POLICY MEMO #12 (DANANG AND BINH DUONG PUBLIC FINANCE MODELS)
DUE.

Class # 34 (05/20): Review

FRIDAY, 05/29: FINAL EXAM