

*HESB 43040 and POLS 30153
Spending, Taxes, and Deficits
Professor Betson
1:30 to 2:45 PM
113 DeBartolo Hall*

Overview

Federal budgets reflect our nation's collective priorities. With the prospect of large and continuing federal deficits, the public has questioned the direction that our nation is heading. Fundamentally we need to ask ourselves as a nation, is the federal government overreaching its role in the economy? Or must we as a nation own up to our responsibilities and begin to pay for what we want our government to provide?

The course begins with a general discussion of the federal budget – how budgets are formed and the past and future trends in spending, taxes and deficits. One of the more disturbing implications is how Social Security, Medicare and other health programs, and the interest paid on the debt will dominate future federal budgets and consequently will limit our ability to meet new challenges that the nation may face. The second part of the course will examine efforts to rein in federal spending in the area of entitlement reform. The specific entitlement program that we will examine is Medicare – the federal health insurance program for the elderly. The final part of the course will examine options that the country faces with regards to tax reform.

Required Books:

There are four books for the course. All are available from the ND Bookstore and online sites such as Amazon.

Boomerang: Travels in the New Third World, by Michael Lewis, Norton Press, 2011

The Political Life of Medicare, by Jonathan Oberlander, University of Chicago Press, 2003

Taxing Ourselves: A Citizen's Guide to the Debate over Taxes (3rd or 4th Edition), by Joel Slemrod and Jon Bakija, MIT Press

Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform, by Jeffery Birnbaum and Alan Murray, Vintage Press, 1987

Additional readings, handouts, and announcements will be made available on the web (designated by 'on Web') at

<http://www.nd.edu/~dbetson/courses/courses.html>

Grading:

The final course grade will be assigned using the following weights:

Class Participation	15%
Daily Reactions to Readings	20%
Three Short Essays (equally weighted)	15%
Take Home Midterm Exam	15%
Research Paper	35%

Honor Code Policy:

I expect all students to abide by the Notre Dame Honor Code. I expect all students to fully participate in the course and homework. Specifically, the copying of another student's essay or work is considered an honor code violation just as copying answers during an exam would be considered an honor code violation. However, seeking help either from me or another student is encouraged.

Attendance Policy

The Academic Code (Du Lac) states 'students are expected to attend classes regularly and punctually.' I have the same expectation as the university. I will hold students accountable for excessive class absences through reductions in the class participation component of the course grade.

Class Participation

For each class period, you are expected to have completed the reading for the day and be prepared to participate in the class. After Spring Break, I will notify any student whose performance in class I judge to be below average (C or lower).

Submitting Assignment

Throughout the semester you will need to submit your work and I would request that all work be submitted via email with the subject being your name (Jane Doe) and then work be attached in a MS Word document. This way I can place my comments on your work into the document and so you can read my comments (my handwriting is terrible).

Daily Reactions to Readings

Starting with the lecture for the fourth class meeting on 2/1, I am requiring that each student submit their reactions to that day's reading. You should 'report' on what you found interesting in the readings; what was the big lesson you got from the readings; what you didn't understand in the readings; and what questions did you have. These reaction papers are due at 10 AM on the day that the readings are assigned. The purpose of this assignment is twofold. One is to force you to keep up with the readings but secondly and more important it will help me direct the class discussion.

You will be allowed one missed reaction paper but after the first missed assignment, one grade (for example A to A-) will be deducted.

Three Short Essays

The first essay is due on 1/29. For this essay you will complete the NY Times budget reduction exercise on the web and write a two to three page essay that explains your budget cuts and how these cuts reflect your priorities for government activity.

Then periodically through the semester I will assign two additional short essays (two to three pages) and provide a minimum of one week for their completion.

Research Paper

Each student will be required to complete a research paper for this course. The topic of the paper will be chosen by the student but should relate to the course material. I would suggest that you examine the topics that we will be covering and select one to go into greater depth. For example, we will be devoting a single class to the budget process but there is substantial literature on topics such as the desirability of the line item veto. A second example is the question of the 'true' cost of the Wars. While these are just two

examples, given the breath of topics in this area I feel that there will be a wealth of interesting topics you can choose from. I would encourage all students to come in and discuss any topic you would like to propose.

The research paper should reflect research and reading of material not assigned in the class. Its length should be in the range of 15 to 20 double spaced pages including footnotes or illustrations. The following are the deadlines for the research paper:

- 2/23 Submit a research proposal (1 page)
- 3/23 Progress Report (Abstract and Initial Set of References)
- 4/20 Optional – First draft for comment
- 5/2 Final Draft of Paper

Office Hours

My regular office hours will be from 3:30 to 4:45 PM on Mondays and Wednesdays and from 1:30 to 4:45 PM on Tuesday. If you are not available for these times, appointments at other times can be arranged. You should be aware that my other class is at 11:45 to 1:00 on MW. My office is 404 Decio Hall. You are strongly encouraged to come and talk even if you are not having problems with the material. I can be contacted at 1-5068 (office telephone) or via email at dbetson@nd.edu.

Class Schedule Disclaimer

Since each class is different with regards to their interests, some discussion of certain material may be lengthened while others may be shorten. Consequently the following schedule is tentative and is subject to change as the semester proceeds. However, the posted exam date is fixed but the material covered on them will reflect what we have covered prior to them.

Class Schedule – Tentative

- 1 1/18 Overview of Class
 Reading: None
- 2 1/23 Video – ‘Ten Trillion and Counting’
 Reading: None
- 1/25 No Class
 Assignment (Due by 1/29 at 5 PM):
 First read Leonhardt – OK You Fix the Deficit (on Web)
 Then complete the NY Times deficit reduction game at

 <http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html>

 Make your selections of budget changes to meet the goal of eliminating the deficit in
 the medium and long run. When you finish, ‘print’ your choices to a pdf file that can be
 circulated to the class. Also submit a two to three page essay that explains your choices
 and why it reflects your priorities for what government should do.
- 3 1/30 The Role of Budgets in Private and Public Decisions – Discussion of Budget Cutting
 Reading: Citizen’s Guide to the Budget (pages 1 – 18) (on Web)
 Budget and Diets (on Web)
 Eisner (on Web)
- 4 2/1 Trends in spending, taxes and deficits
 Reading: CBO Budget Outlook 2011 (on Web)
- 5 2/6 Where have the Clinton surpluses gone?
 Reading: Clinton’s Economic Plan (on Web)
 Greenspan on Bush Tax Cuts (on Web)
 Leonhardt on Deficits (on Web)
 NYT Editorial on Deficits (on Web)
- 6 2/8 Do deficits matter?
 Reading: Shaviro (on Web)
 Stelzer (on Web)
 Pew Research on Public Opinion (on Web)
 Yellen (on Web)
 Optional: Auerbach and Gale (on Web)
- 7 2/13 International Comparisons: Iceland, Greece and Ireland
 Reading: Boomerang (Chapters 1 through 3)
- 8 2/15 Germany: A role model? And a look back at ourselves
 Reading: Boomerang (Chapters 4 and 5)
- 9 2/20 The federal budget process reform
 Reading: Joyce and Reischauer (on Web)
 Poterba (on Web)
- 10 2/22 What is the debate on the budget about? Size of Government?
 Reading: Krugman (on Web); Stanger (on Web);
 Kinsella (on Web); and Gerecke (on Web)
- 2/23 Research Paper Proposal DUE by 5 PM via email

Entitlement Reform: Medicare

- 11 2/27 Personal Responsibility v. the Welfare State
 Reading: Hacker (Preface to *Divided Welfare State*) (on Web)

- 12 2/29 An overview of the current Medicare Program
Reading: Annual Statistical Supplement pages 35 to 55 (on Web)
- 3/2 Take Home Midterm Exam DUE by 5 PM via email**
- 13 3/5 Adoption and Politics of Benefits
Reading: The Political Life of Medicare (Chapters 1, 2 and 3)
- 14 3/7 Politics of Financing and Regulation
Reading: The Political Life of Medicare (Chapters 4 and 5)
- 3/10 to 3/18 ***Spring Break***
- 15 3/19 Medicare Politics
Reading: The Political Life of Medicare (Chapters 5 and 6)
- 16 3/21 Privatizing Medicare
Reading: Ryan/Rivlin Proposal (on Web)
- 3/23 Progress Report on Research Paper DUE (Abstract and Initial Set of References)
- Tax Reform***
- 17 3/26 Overview of Federal Personal Income Taxes
Reading: Slemrod and Bakija (Chapter 2)
- 18 3/28 Tax Terminology and the 1040 Form
Reading: TBA
- 19 4/2 Is the system Fair?
Reading: Slemrod and Bakija (Chapter 3)
- 20 4/4 How do taxes affect the economy?
Reading: Slemrod and Bakija (Chapter 4)
- 4/9 Easter Monday – No Class
- 21 4/11 Can and should tax system be 'simple'?
Reading: Slemrod and Bakija (Chapter 5)
- 22 4/13 What would constitute fundamental tax reform?
Reading: Slemrod and Bakija (Chapter 6)
- 23 4/16 Alternative Consumption Taxes
Reading: Slemrod and Bakija (Chapter 7)
- 24 4/18 Constructing a new tax system
Reading: Slemrod and Bakija (Chapter 8)
- 4/20 OPTIONAL – First draft of paper if comments are wanted
- 25 4/23 Evaluating Tax Reform Proposals
Reading: CBO Analysis of Tax Reform Ideas (on Web)
Slemrod and Bakija (Chapter 9)
- 26 4/25 1986 Tax Reform: From the White House to the House
Reading: Birnbaum and Murray (Chapters 1 through 5)

- 27 4/30 1986 Tax Reform: Rebirth in the Senate to Final Passage
Reading: Birnbaum and Murray (Chapters 6 through 11)
- 28 5/2 Discussion is a Grand Compromise Possible Today?
Reading: None
- 5/2 **Final Draft of Research Paper Due**