

REVIEW “A penny saved is a penny earned.”

\$USD

“Money Talks!” 1951 short film for U.S. high school students & “riffing”

Personal Finance: Balancing your checkbook

Regular installments/disbursement VS. lump sums

Your balance

Paycheck deduction (automatic)

APP

primary income: allowance from parents

supplementary income: part-time or short-term jobs

Mon., Mar. 6th: NOTE READING ASSIGNMENT! Smith, Ch. 4 (pdf on computer)

Review

Budgeting & Executive Functioning Chart for U.S. College Students

read, explain, and rank yourself

Example Budget Worksheet for U.S. college students

Executive Functioning: Budgeting presentation on High/Low Functioning

How similar is personal finance to budgeting for an organization?

Angry video comparing personal finance to U.S. federal budget

Should/can the federal budget be like a personal one? (Video)

To balance budgets, we must either (or both) increase revenues or cut spending.

Alexander Hamilton (1st U.S. Sec. of the Treasury) & Broadway Hip-hop

Thurs., 3-9

Review

Reading (Smith, Ch.4) reactions & plan of future class sessions

U.S. geography?

Map challenge: U.S. states names, 2-letter postal abbreviations, & state capitals

U.S. regions: New England, The Deep South/The Bible-Belt, Appalachia,

The Midwest (incl. The Rust Belt), “The West”

The Great Plains, The Rocky Mountains, The Southwest/The Northwest.

East/West Coasts (coastal elites, richer) VS. “Flyover country”/Middle America

Urban VS. Rural

Levels of government (review from fall semester): 3 basic = federal, state, local

Federal VS. Unitary state federal gov’t VS. national gov’t time zones

land grabs in rural areas government revenue & “mass incidents”

Mon. 3-13

Map Challenge Results & Prizes

REVIEW

U.S. states (Chinese/Canadian provinces, etc.) have state capitals.

i.e. The capital of Nevada isn’t Las Vegas (the biggest city) but Carson City.

The local/sub-state level of government is very complicated, and there is much variation!

Local governments are either 1. General Purpose OR 2. Special Purpose

1. States are generally divided into counties. i.e. NJ has 21 counties, and

Newark (city proper/city itself pop. 277, 140)

Downtown (incl. “the inner city”/the bad side or bad part of town) & outskirts

is in Essex County (pop. 797,434) including suburbs. The USA has 3,077 counties in total.

Cook County, IL (Chicago) ... Los Angeles County ... NYC 5 Boroughs: Manhattan, Brooklyn (Kings County), Queens, Bronx, Staten Island

Counties without a major municipality have a *county seat* 县政府所在地/县治 as the center of county government (Chicago is still the county seat of Cook County, IL, and Newark is the county seat of Essex County, NJ, but their importance extends far beyond the county. In neighboring Morris County, Morristown is the county seat, and few outside of NJ have probably heard of it.).

Below Counties are often municipalities and townships. Cities are divided into (voting) districts.

Municipality = City or Town (i.e. in California)

NYC is further divided into neighborhoods

Most cities divided into (voting) districts, which are similar to neighborhoods but more official

Geographically, anywhere with a post office has its own zip code (larger cities have many of them!)

2. Special Purpose local governments may have a specific task to perform.

Examples of special purpose local governments include school districts, street lighting, port auth.

3-16

REVIEW

Videos: Federal Vs. Unitary state (USA & China as presented by two girls in high school),

Federal & State governments (“How it happens”)

Local government (continued)

Bankruptcy (personal VS. governmental) declare bankruptcy

Videos on Detroit.

Read *LA Times* article on “The Detroit of China”

Changchun’s sources of revenue (same for all provincial capitals/all Chinese cities?)

For Monday. Review Smith Ch.4 (focus on vocabulary words defined at the bottom of the pages)

3-21

REVIEW: county seat, city limits (on the edge= the outskirts, nearby towns & small cities outside the city limits= suburbs)

Finish *LA Times* article on “The Detroit of China”: diversification (i.e. away from auto industry/heavy industry) VS. privatization of SOEs: Which is more important for the future of the Northeast’s economy? Why?

Global economic crisis - □ARRA (American Recovery & Reinvestment Act) (2008-10)

Small towns in China with one dominant company or industry rely on TVEs (town & village enterprises)

1-factory town(s)

Documentary on U.S. health care system: “Sicko”

“Good job” includes “benefits” VS. bad/crappy job

The welfare state (socialist policies such as universal health care, unemployment, retirement/social security savings accounts, “a social safety net”) VS. welfare (just for poor people)

Video on an OH town from *60 Minutes*

3-23 “There are only two things in life that are certain: death and taxes.”

REVIEW: hidden taxes

Hand out Budgeting Glossary

Smith Ch. 4 on state government revenue sources & types of taxes

1. Sales (services generally excluded as well as “essential” goods) i.e. CA is about 8%
2. Property
3. Income

Regressive (sales, sin/excise, gasoline) VS. Progressive (i.e. property, federal income, capital gains, estate/ “death”)

a flat tax on income such as 15% = “equal but not fair”

Tax Burden = % of one’s income paid in taxes Federal taxes: most rich people pay less than 25% of their incomes in taxes

Federal Income Tax “brackets”: Lowest = 0% or negative (receive tax credits)

Highest= 40% (under Obama), 30% (under W. Bush), under Reagan 80% in the 1980s

Jan. to April is “tax season” in the U.S., when citizens are required to file their state & federal tax returns.

NASBO video: The General Fund

3/27 Textbook& syllabus update

REVIEW: Taxes on “bad things”: excise/sin tax

Finish Smith, Ch.4: intergovernmental transfer (95)

Charts on pg. 94, 97, 104: state-by-state & regional variation

Unfunded mandates (108)

Budgets are both a process & a product!

Practice quiz

Correct & discuss practice quiz

For Thurs.: Read Menifield Chapters 3 & 10? Start Textbook?

4/1

Real Quiz for 20% of your grade: April Fools Day

Videos: PBS Crash Course on Monetary & Fiscal Policy, Budgeting Process

Supply-side economics: in general, lower taxes (especially on large corporations and rich individuals) will be good for the economy because these “suppliers” will want to increase production & hire more

As “job creators”, the benefits of these lower taxes on the rich will “trickle down” to lower classes.

Reagan’s 1980’s top income tax bracket taxed at 70% and has been consistently reduced since then

Lowest under W. Bush 30% , Obama raised to about 40% Rich people like Trump & Mitt Romney, tend to take tax deductions and make a lot on capital gains, which reduce their real tax rates to 25% (i.e. Trump 2005) or even 15% (Romney)

Questions about the U.S. context?

3 Budgets in the U.S.: proposed (Senate + House= Congressional, “The Administration”), signed, actual

Menifield Chapters: China & USA

Which is the Party of “fiscal responsibility”?

The Year VS. The Fiscal Year “tax & spend liberals”

outlays (=estimated expenditures, incl. especially those budgeted for the future)

Gross VS. Net (i.e. profits) & above-the-line VS. below-the-line items

4/6 Handout on U.S. political structure & textbook plan (start following the syllabus)

“the debt ceiling” & “the sequester”

Demographics = characteristics of the population (i.e. size, age, wealth & income distribution, etc.)

Fiscal responsibility, continued.

Videos! Debt & Deficits explained by PBS, John Taylor

Ideological debate in U.S.: Cut spending or increase revenue?

(More accurately: cut both, increase both, or cut taxes while also increasing spending?)

Videos: Tax Inversion & Double Taxation, Republican Senators defend “job creators”

Videos: Robert Reich debunks “deficit hawks” and calls for tax increases on top tax brackets

Do you agree with one of the ideological positions for fiscal responsibility?

4/10 Awaiting word from professor on “Assignments” before distributing syllabus.

REVIEW: fiscal responsibility (trying to balance budgets, reduce debt or at least keep the debt at a manageable level, maybe even aim for surpluses instead of deficits)

What are the parameters of the debate on fiscal responsibility in the U.S.? Is the national debt a problem? If so, how big? Those who think it’s a problem propose different solutions to balance the budget: cut spending (fiscal conservatives, R, Libertarian) OR increase revenue (liberals, D). Budget projections suggest spending will rise rapidly due to “Baby Boomers” reaching retirement age.

Budget proposal (suggest what to do for a coming fiscal year or long-term budget)VS.budget projection

(prediction of what will happen under current law & policy, most importantly by theCBO Congressional Budget Office)

On China becoming “a tax state” (pg. 46)

Videos: China’s debt-to-GDP ratio and whether to worry “National debt” includes: government, corporate, and household

BACKGROUND INFORMATION

NY State: NYC(11.3 million)& “Upstate NY” (8.4 million) population density

State capital: Albany (97,000 pop.)

NY leaders: Governor Cuomo Past Governors: 4 U.S. presidents/6 vice presidents, incl. T.Roosevelt& FDR, Rockefeller, Pataki, Mario & Andrew Cuomo. Note family dynasties.

2nd-in-Command in states: Lieutenant Governor (Lt. Gov.)

Mayor de Blasio Past mayors: LaGuardia, Koch, Giuliani, Bloomberg (4-year, unlimited terms)

NY State Legislature: Senate & Assembly

NY public universities (compared to NJ) : SUNY & CUNY systems “flagship” campus of Rutgers is New Brunswick

For Thurs.: Memo 1 (You & Your Budget Officer)

4-13

REVIEW

Textbook Introduction & Overview...

The business/economic cycle:

Good times: booming, boom times, bull market, economic growth/expansion

Bad times: recession, depression, bear market, economic decline/shrinking/contraction

Unstable times: boom & bust

Stable times: stagnation (bad stability of no growth), “stagflation” of the 1970s (combine stagnation & inflation)

& recent U.S. history: OMB video from Jack Lew on Obama's 2012 budget

Target: a sustainable deficit of 3%

Mario Cuomo's Foreword

"Budget success is the key to reorienting government." (2)

Continuity (unbroken, continuous, uninterrupted) VS. sustainability (something can continue in the "long run" without major problems)

Memo 1...

Structural variation: inside or outside the cabinet? Results: direct VS. indirect access to the governor, filtering of budget information

Choosing your budget officer (5)

What is more important: continuity or partisanship?

Three kinds of "bad news": 1. Economic slowdown/problems in the business cycle
2. Forecasting errors 3. Program/managerial failures

Will the B.O. share this bad news, or will the governor find out from the media?

The "bad news" usually requires amendments (revisions) to the budget.

SEC = Securities & Exchange Commission (main regulatory means of the federal government over the stock market, bonds, etc.)

The current OMB Officer under the Trump Administration: Mick Mulvaney (video of press conference discussing President Trump's 2017 "America First" budget)

For Mon.: Memo 2 (Budget Strategy)

4/17 Syllabus: still no word on "Assignments"

Opening question: What are Pres. Trump's budget priorities for reorienting the U.S. government?

Proposed budget VS. fiscal policy (both affect budget surpluses/deficits & the national debt)

VIDEO: NASBO on State Budgeting Process: Fiscal Year begins July 1st for 46 of 50 states

Memo 2...

Closing the gap: being "austere" (aka "austerity measures") VS. issuing bonds

Moody's, Standard & Poor = private bond credit rating agencies (14) Austere economic policies generally help to improve a state's ratings, while sustained, multi-year deficits (especially if large) will cause the agencies to lower a state's ratings (making creditors more cautious about buying their bonds).

Bond ratings: AAA (Prime/Investment-Grade) to D (in Default), also including B (Speculative, Non-Investment-Grade, High-Yield) & C (Risky) which are considered to be "junk bonds"

"gap-closing" steps & measures (15) When has a politician broken a promise not to raise taxes?

Planning horizons: 1 fiscal year VS. multi-year Yours? Mine?

Recurring VS. Non-recurring spending & revenues (16)

Balancing the budget: structurally balanced budgets VS. chronic structural deficit (17) Does a structurally balanced budget mean that there is no deficit for a given fiscal year? Why/ why not?

4/20 pro- VS counter-

REVIEW: Bonds & Bond Credit Ratings

Videos: Gov't bonds, Investment basics: bonds

Maturity : Length of time before the principal is paid back in full.
cyclical surplus VS. cyclical deficit

“The Natural Resource Curse” & counter-cyclical spending of “rainy-day funds” (19) What should a “fiscally disciplined” government do during periods of relatively high economic growth? Stimulus?

Pressures of re-election: a positive or negative factor?

Video: PBS Crash Course Fiscal Policy & Stimulus

Inflationary Spending VS. Contractionary Spending (done by the gov’t, not by consumers or private corporate investment)

Keynes & Keynesian Economic Policy : Gov’t spending can replace private/consumer spending in times of economic recession to get the economy growing (again/faster). Requires “deficit spending”

Multipliers i.e. 1 (Low), 1.5, 1.75, 2 (High)

Keynesian Stimulus VS. Austerity (to reduce debt)

Closing video: 60 Minutes on State Budgets’ Day of Reckoning, featuring NJ Gov. Chris Christie

For Mon.: Appendix, pg. 108 on Debt.

4/24

objective analysis VS. subjective analysis (personal & opinionated, biased)

objectivity (based on facts) VS. neutrality (taking and advocating no position)

State Budget Crises (Continued): The case of Illinois

Videos:(Review “Day of Reckoning” if needed) Illinois Economic Policy Institute, Illinois Budget Crisis in 3 Minutes, The Daily Show on “Happy Endings” (D) VS. IllinoisPolicy.org (R probably)

Partisanship VS. Bi-partisan

Note: The debate in Illinois and how the state gov’t will make its decisions is a good example of the “Madisonian Model” of public administration as “Interest-Group Balancing,” with one group favoring revenue increases and the other favoring cuts in expenditures. (ALSO kNOWNaS = AKA the Political model of PA in Rosenbloom’s article) Both policy changes could be considered different kinds of austerity (at the state level, Keynesian stimulus is not really an option unless the federal government funds major, new programs or bailouts, which are currently unlikely.)

Using evidence and arguments from the videos, imagine you work for the governor’s office or the state legislature. Which of the videos is most objective/neutral, and which is most convincing to you? Which policies would you recommend to address the state budget crisis? Why? (Discuss in groups of 3-4)

Make specific policy proposals & Vote on them as a class. Majority = 15 of 29 means the proposal passes & is sent to the governor for approval.

1. Change the flat income tax to a progressive income tax to increase revenue. 19 = passes

2. Stop funding retirement accounts of college/school administrators 1 = fails

3. Reduce payrolls by limiting gov’t overtime, salaries, workstaff by layoffs. 1 = fails

4. Add a tax on services to the sales tax. 9 = fails

5. Tax the retirement benefits of people making over \$50,000/year. 7= fails

4-27 Levels of education in U.S. daycare(0-2), preschool (age 2-4), K-12 (k= kindergarten, elementary, middle, high, 12 = 12th grade [being a senior in senior high school]) Vs. Higher education (college/post-secondary)

REVIEW

Why does the IL state budget crisis continue? Political gridlock: Governor is (R), General Assembly (state legislature) is controlled by (D). No budget was passed for 2016, and 2017 began without a budget. Bipartisan compromise is becoming rarer & rarer across the country as voters & politicians become more and more polarized. Centrists/Moderates (likely to compromise & “work across the aisle”) face growing reelection challenges from more ideological candidates.

At the federal level, partisan gridlock on the budget (especially the debt ceiling) results in threats of “government shutdown” which have rarely (but occasionally) been carried out. Just recently, Congress faced a shutdown possibility over Trump’s funding for the wall on the Mexican border and healthcare payments to low-income citizens required by Obamacare.

“supermajority” of 60 senators is required to pass the federal budget

VIDEO: NASBO on Spending. Why does spending almost always grow faster than revenue? (17) Due to rising medical costs & rising prison costs. As a result of this phenomenon, even a structurally balanced budget for one year will likely run a deficit in the next year unless spending is cut or revenues are increased.

Appendix, pg. 108 on Debt.

KEY TERMS (*italicized in textbook* or otherwise important): fiscal stress (shows an especially difficult time or crisis in the budget) > fiscal pressure (normal & universal)

receipts & disbursements AKA... revenues & expenditures, income & outlays, accounts receivable & accounts payable

2.5% of state revenues come from bonds (much lower amount & % than the federal gov’t)

General Obligation Bonds (GO)= safe/investment grade, highly rated

VS. Appropriation-backed bonds = riskier b/c citizens do not have the right to seek repayment in court.

Backed instead by “moral obligation” (please trust that the gov’t is good & moral). These & COPs (below) don’t count as debt (which is limited by state law).

VS. Certificates of Participation (COP)= share in the lease revenue of a gov’t property (pg. 108?)

Securities investment groups & banks are often the first point of contact with bond markets and new “offerings” & “issuances”, rather than individual investors.

Personal net worth = sum total of all liquid & nonliquid assets (=total wealth)

cash flow needs & liquidity (liquid VS. non-liquid assets in PPT presentation). To “liquidate” assets.

Why might a state have liquidity & cash flow problems? How are these problems different than total debts and fiscal deficits in the budget (i.e. in kind and in season)? How do states address these problems?

Tax Anticipation Notes (TAN) & Revenue Anticipation Notes (RAN) and IOUs (“I owe you” \$_____ notes for informal, personal loans/debts)

For Thurs. Memo 3... OR...

Articles related to state budgeting and fiscal conditions:

5/8

Still awaiting word from professor on Assignments & Midterm Exam.

Practice Quiz 2 debriefing. High = 75, 72, 67. Low = 19, 21, 29. Average = 44

Any comments, questions, difficult concepts to discuss from the quiz (or recent classes)?

Governor = the top position in state/provincial gov’t “The governor’s office” = The state executive branch
Recall election

Lieutenant governor is similar to Vice President, as second-in-command/first in succession

Exercise on sustainability. For each of the following statements/practices/phenomena, choose one option which objectively describes whether it can continue in the long-term. For discussion, consider reasons why (or what the answer depends on).

A) Probably sustainable. B) Probably unsustainable. C) We don't know/debatable.

1. Fossil fuel dependency for automobiles and indoor heating.
2. Renewable energy like wind & solar power.
3. China's GDP grows at 7% or greater per year. (every 10 years the size doubles)
4. U.S. national annual budget deficits of 3% or less.
5. U.S. state budget deficits.
6. Reduction of U.S. unemployment from 4.4%. 2009 10% Is "full employment" possible?
7. U.S. global military & economic dominance and leadership.
8. Medicare & Social Security enrollment in the U.S. of "Baby Boomer" retirees.

Exercise on partisanship. For each of the following statements, in the U.S. context, choose one of the following four options. Is the statement... A) partisan in favor of Democrats & liberals, B) partisan in favor of Republicans & conservatives, C) bi-partisan, **OR** D) non-partisan ?

1. Donald Trump is already a great president, whose first 100 days have been historically successful, as seen in his successful nomination of a Supreme Court justice and the stock market boom.
2. According to the CBO, the House Republicans' new health care bill (the AHCA) to repeal Obamacare (the ACA) will reduce Medicaid spending by about \$1 trillion while resulting over 10 years in about 24 million citizens becoming uninsured.
3. Terrorism is currently the greatest threat to U.S. Homeland Security.
4. A "single-payer" healthcare system like the kind found in Canada, most of Europe, and other more socialist countries would be the best for the USA because it would reduce the average monthly premium and ensure that no one is ever bankrupted by medical treatment again.
5. China needs to improve its record on Human Rights.
6. State and federal budget crises are generally caused by earmarks, overspending, and an unwillingness to "live within our means."
7. Had Jack Lew been continuously retained as OMB officer since the beginning of the century (when he presided over a large budget surplus), it's likely that we wouldn't have gotten into such fiscal trouble.
8. In order to participate in televised presidential debates, the Commission on Presidential Debates requires a candidate to have a level of support of at least 15% of the national electorate in polls.
9. The unemployment rate is the lowest it has been in ten years. However, it excludes the number of people who are "underemployed" and those who have given up finding a job and left the labor market.

HOMEWORK (to be collected & graded/corrected): For Thurs., write at least seven sentences describing something you think is 1) sustainable, 2) unsustainable, 3) of uncertain sustainability (including, briefly, reasons why). 4) partisan in favor of Democrats & liberals, 5) partisan in favor of Republicans & conservatives, 6) something both Democrats & Republicans would agree with, 7) a statement that is non-partisan yet related to government budgets or other public policy.

For Thurs., remember your HOMEWORK, above! No new reading assignment.

5-11 Collect homework (7 sentences on sustainability & partisanship)

Updates from the professor: Assignments 1-4, ITP plan in formation

MEMO 3: “Preparing the Executive Budget—the Technical Underpinnings”

Views on Stages of the Budgeting Process: Textbook (pg. 25) says 1. Preparation 2. Adoption 3. Execution;

Your Budgeting Glossary says 1. Revenue Estimation 2. Budget Call 3. Budget Formulation 4. Budget Hearings

5. Budget Adoption 6. Budget Execution How do the six steps get reduced to 3?

STRUCTURE: Who’s doing the preparation/research, and who’s making the decisions?

PREPARATION STAGE: 1. Assess the state economy (within the national economy)

2. Estimate revenues Estimates may be “conservative” or not, or unrealistic/wishful

3. Establish a “spending baseline” (by assessing current & future services)

The final product of the Preparation Stage is a “preliminary financial plan” (pg. 39)

How closely do state economies follow the national economy? (pg. 28) What accounts for differences?

After accounting for national economic forecasts and sharing regional trend information with “revenue estimators” in neighboring states, “[...]watch with great care the industries that dominate your state’s economy [...]” (pg. 28)

Exercise: Steps 1 & 2 in Preparation Stage. Case 1: NJ

VIDEOS on industries in NJ. Which would/would not be good to follow for an overall assessment of the state economy? Are they having a good, average, or bad year? How will that affect revenues for the fiscal year?

(Consider corporate tax revenue, sales taxes, and personal income taxes.)

What U.S. states do you know which have “dominant industries?”

Examples of industries: pharmaceuticals, finance, chemical development, telecommunications, food processing, electric equipment, printing, publishing, tourism, shipping, gaming (casinos). (NOTE: These are the industries listed by Wikipedia as the center of the NJ economy!) Mining

Case 2: Your home province. Sit with students who are also from your province.

As a group, decide which three industries are most important for your province’s economy. Do you expect companies and SOEs in these industries to have a good, average, or bad year? What is your standard for judging a good year? If your home province collected revenues (taxes) like a U.S. state (which it probably doesn’t!), as a group would you expect them to be up, down, or the same as last year? Why?

NJ’s dominant industry?

CA’s dominant industries: housing, tourism, agriculture

WI’s dominant industries: dairy products (i.e. cheese)

NY’s dominant industries: finance, tourism

5-15

Assignment 1: Fill out the form, attach a picture of yourself in the square, turn it in Mon. (next week). I will scan all the files and send them to the professor.

Return homework.

REVIEW sustainability: NOTE that sustainability is not just about being good or bad for the environment!

Q: Is x sustainable? A1: If x can continue in the long-term (i.e. ten years or more), *yes*. X is sustainable.

A2: If x can’t continue in the long-term (maybe it will have to stop or end, due to something “running out” or being “used up”), *no*. X is not sustainable.

A3: If we don’t know whether x can continue in the long-term (maybe the future is too uncertain, or it depends on some unknown variable), the sustainability of x is uncertain, unknown, or debatable.

EXAMPLES: Sunlight is a renewable resource. Its use is sustainable because it will never run out.

The use of solar power has been growing rapidly. Critics say this growth is unsustainable because it depends heavily on government subsidies to make it economically viable. If the subsidies continue, the growth in solar

power is sustainable. If they end, we may see the growth end or even reverse itself.

Sustainable GDP growth in China? = more about environmental friendliness, also may include whether it is based on urbanization itself

Partisanship:

Partisan: favoring (or favored by) one party over another (or others), opposing party/parties may think a partisan statement is unfair or inaccurate, subjective or opinionated

Bipartisan: both parties (would) support or agree with it, including things which exclude “third parties”

Non-partisan: apolitical, neutral statement of fact

EXAMPLES:

Without the Communist Party, there would be no new China.

Entitlement reform is the best way to get U.S. government spending under control.

If Trump reduces tax rates to those under Pres. George W. Bush, the deficit will grow much larger.

Budget crises threaten many states led by both parties.

Austerity means either reducing spending, increasing revenue, or both.

PREPARATION STAGE: 1. Assess the state economy (within the national economy)

2. Estimate revenues Estimates may be “conservative” or not, or unrealistic/wishful

3. Establish a “spending baseline” (by assessing current & future services)

VIDEO: NASBO on the Federal Government & State Budgets. Federal grants/outlays account for 1/3 of all state revenues in The General Fund (includes “reserves”)

Accuracy of revenue estimates: will regularly be off by 2%; in 2009 off by 10% (pg. 29)

The spending baseline...

Forecast (predict what will happen, how much revenue will we receive next year?) VS. baseline (what did we spend last year, and do we expect services to change significantly or not)

Under what (unusual) circumstances would the baseline ever be lower than the previous year?

one-time allocations VS. recurring costs

Key questions: What are the costs of current services? Is the staff growing or shrinking? Are there any new state and federal laws or mandates which might affect spending on prisons, schools, etc.?

Annualization of spending: include authorized staff salaries & other expenses which won't begin until the fiscal year is underway (has begun) to ensure that funds are available when new staff are hired or other large/complicated purchasing processes are completed.

Problems with spending baselines: no incentive for improvement of productivity, requires removal of all additional/legislative “pork barrel” spending which will inevitably be added again later (pg. 34-5), difficult to manage significant maintenance or replacement of “long-lived assets” b/c they are costly and make necessary spending on them (“capital projects”) seem like very large discretionary spending increases (pg. 38). “legislative pork” has been added to a bill, a bill has been “larded” with “pork” “pork barrel” politics

Novel “budget systems” may change these procedures (1, 2, 3) but are often short-lived due to escalating paperwork. EXAMPLE: Performance budgeting asks how much better a task can be accomplished for each additional dollar spent and what the effectiveness costs are for each dollar of spending reduced (pg. 37)

Projected deficit (forecasted for next fiscal year, to be closed if possible) VS. operating deficit (current fiscal year) (pg. 39)

For Thurs., read Assignment 2 (instructions & text) and be prepared to ask questions about it. Also begin MEMO 4: Choices in the Final Phase of Budget Preparation

For Mon. fill out Assignment 1 and attach a printed photograph.

5-18

Questions about Assignment 2? Multivariate regression? Research methodology?

Memo 4

REVIEW: What is the finished product of the Preparation Stage in the budgeting process?

Preliminary financial plan

With this finished, the governor has choices to make in producing the executive budget proposal.

Cabinet members and others will make suggestions for programs, and the governor will also consider his/her own priorities (incl. promises made during the campaign, his/her platform).

What the governor chooses should be introduced in the “State of the State Address,” a yearly speech outlining the current situation of the state economy, finances, gov’t, and governing priorities for the coming year. (At the federal level, this is done in the State of the Union Address, usually in Jan. or Feb.)

What choices does the governor have?

Management initiatives VS. Program initiatives (pg. 44) (Similar in Non-profit orgs. to spending on overhead VS. on programs)

To close likely gaps (projected deficits): Reduce spending VS. Increase revenues

Reducing spending... Ranked priorities VS. Across-the-board cuts

Ranking priorities & cutting low ones (i.e. those which have narrow or little political support, pg. 49, those which can be “offset” by increases in local revenues, such as increases in college tuition) This is seen as rational but politically difficult, as programs being cut will resist! This is often politicized.

Across-the-board cuts = every expense is cut by the same percentage until the gap is closed. This is impartial/fair, but it doesn’t advance the governor’s policy agenda or fulfill campaign promises.

Governors should not trust the firmness of spending mandates (47) and should take advantage of savings from *attrition* and *turnover* (48-9)

Delaying maintenance or construction of new infrastructure is a risky temptation to reduce spending!

VIDEO: MN bridge collapse of 2007

Increasing revenues...

minor taxes (fees & nuisance taxes) VS. broad-based taxes (i.e. sales & income taxes)

progressive VS. regressive

(whose tax burden is increasing? The rich or the poor & middle class?)

Increasing requests from the federal gov’t (i.e. under recessions, in NY & CA)

One-shots & gimmicks (i.e. selling publically owned assets like land, vehicles, buildings, etc.) as inadvisable non-recurring revenues

Unions: group of people, usually workers/employees, which advocates for its members

After executive decisions are made but before the Executive Budget Proposal is complete, the governor will hear final, personal appeals from agency heads & staff. This will include meeting with leaders from public sector unions (i.e. for teachers, police, firefighters, and gov’t office workers), and this topic has become highly politicized in the past decade, as Republican governors are increasingly targeting such unions for reductions.

Entitlement reform

VIDEO: Reporter John Stossel on Public Sector Unions in Wisconsin, Puerto Rico, and elsewhere

What do businesses want from a state (compared neighboring states)? *low corporate tax rate *Fewer regulations on how to start and maintain a business (i.e. fewer permits, inspections, etc.)

For Mon.: Read Memo 5. Also remember to turn in Assignment 1 on Mon.

5-25

Finish public sector unions video

Quorum= a majority or enough in attendance to proceed as normal

Memo 5

Executive budget proposals DOA “dead on arrival”? (pg. 57)

State assembly = state legislature (similar to the federal level, will have upper & lower houses)

“Rubber stamp” legislature (legislature’s function is to approve/sign what the executive proposes, but it can’t

oppose the executive) VS. contentious legislature (proposals are debated & the legislature can deny/go against the executive and make its own proposals or overrule an executive veto)

Four factors which affect budget dynamics and whether the executive proposal is seriously considered and adopted: 1. The economic setting 2. The extent of changes proposed 3. Incentives for cooperation or competition 4. The political calendar

1. The economic setting (growth VS. recession)

2. Scope of Redistribution → “winners & losers” (59-60)

KEY TERMS: Distribution (how things like resources, income, etc. are currently distributed or divided) VS. Redistribution (of income, costs, benefits, etc.)

3. Incentives for cooperation or competition: Which party controls the Assembly? Is it split?

Intra-party rivalry prevents cooperation.

4. Political calendar: most difficult in election years, as even the governor’s own party might find things to oppose due to policy differences in particular voting districts or “redrawn” districts

Closing points on the legislature: 1. The governor needs to lead on significant changes (whether cuts or increases), or the legislature won’t pass them (64). 2. The legislature is less interested in fiscal responsibility than the governor and won’t pass a budget that’s *more* responsible than the executive proposal (65). 3. The governor needs to help find funds for legislators’ priorities which hadn’t been previously considered (66)

VIDEO: Trump’s Budget Explained,

For next Thurs., read Memo 6, “Going Public with the Budget”

6-5:

ITP begins next Monday, 1:30-5:30PM! Be ready for ***LOTS*** of assignments, test, papers, and grades!!! (in both classes)

Return & discuss Practice Quiz 3 (High: 70, 63, 61. Low: 30, 32, 34. Average: 47)

“kicking the can down the road” = let the next person in office deal with it when it’s an emergency / passing the buck

Entitlements = things (benefits) to which people are legally entitled/guaranteed by law

Examples: at federal level, social security. At the state level (with public sector unions especially), health insurance & pensions

A contentious legislature has a slower, more politicized budget process, with more power invested in it and also more “pork barrel” politics (adding “earmarks” which benefit individual districts/constituencies)

MN =bridge WI= against public sector unions Can be offset by tuition increases.

Memo 6: Going Public with the Budget

What does “going public” mean?

Includes *many* speeches tailored to different audiences, press releases, legislation (bills), technical briefings for agency heads/credit-rating agencies (Moody’s, Standard & Poor’s, etc.), interest group leaders, etc.

This memo requires a background in U.S. gov’t “public relations”

Two main objectives for the governor: 1. Show mastery of the budgeting process and the specific proposal. 2.

Highlight *a few* (not too many) key themes

Before the first public speech, use “leaks” and briefings strategically to keep the press friendly and control the message. Those supporting the proposal due to increased benefits should be “tipped off” and expected to make public statements praising the budget.

Politicians increasingly use other forms of media (i.e. not “mass media” like newspapers & TV) to get their budget message directly to “the people” (79-80), as reporters may not have a good relationship with the governor (or the president!).

To pass the budget in the state assembly: (simple) majority vote VS. supermajority vote

For Thurs. (final session before ITP), continue discussing 2017 executive budget proposal & Memo 6

6-8 “the calm before the storm”

Distribute Assignment 3. Assignments 2 & 3 will be due early in the ITP. Does anyone need Assignment 2? MORE VIDEOS on the 2018 Federal budget: CNN “Digging into Trump’s Budget”, House Speaker Paul Ryan on Fox News defends the proposal, Sen. Bernie Sanders on MSNBC opposes the proposal, Fox Business Network Mulvaney Defends the Budget, OPTIONAL: “Last Week Tonight” John Oliver makes fun of the budget with naughty language.

Question: If you were a Republican or a Democratic member of Congress, what about the executive budget proposal would make you happy or angry? What would you find unacceptable? What would you fight for? (Discuss with a partner for 5-10 min.) Discuss as a class.

Final 45 minutes of class: Bond-trading Role-playing game with world currency (See handout)