

# A PUBLIC FINANCE TEXTBOOK FOR PROSPECTIVE PUBLIC ADMINISTRATORS: BALANCING SOUND ECONOMICS WITH APPLICATIONS IN THE PUBLIC SERVICE

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**F**ISCAL ADMINISTRATION, ANALYSIS AND Applications for the Public Sector (Mikesell, 2007), now in its seventh edition, is explicitly for students in the more than 250 schools of the National Association of Schools of Public Affairs and Administration. These students are graduate students in professional public service programs, including Master of Public Affairs, Master of Public Administration, Master of Public Service, Master of Public Policy, and the like. If their masters program is accredited by NASPAA, their curriculum must include coursework in “budgeting and financial processes,” to quote the language of the appropriate standard, whether the student likes it or not (and many of them do not), and many of these courses use my textbook. To be usable for this market, the text has to start at the level of these students and then bring them to the level necessary for functioning in the public service. When they graduate, these students will end up applying the ideas and principles of public finance in operating agencies of federal, state, and local government, in oversight positions in the Government Accountability Office, in central budget offices around the country (the federal Office of Management and Budget and comparable state and local offices), in large and small nonprofit organizations around the world and across the United States, as professional staffers of members of Congress and state legislatures, and as research and program staff for public interest and lobbying groups at national, state, and local levels. These graduates are in charge of how public finance gets put in place. If you get good government where you live, it is probably because of the skills of graduates of these programs. Of course, if you get bad government, the administrators are probably from these programs as well. And there is a very good chance that graduates of these programs learned public finance from *Fiscal Administration*.

The fundamental focus of the book is to develop in these students the skills and perspectives appropriate for applied positions in public finance. Before the first edition of this textbook appeared in the early 1980s, no text satisfied the particular

needs of this market. Traditional budgeting books ignored taxation, public finance texts did not cover topics of budget process and public expenditure management systems, no texts provided adequate treatment of municipal debt markets, none of the texts provided many examples and cases, and the texts did not include skill-building practical exercises as an integral portion of the book. *Fiscal Administration* aimed to remedy all these omissions. As editions have gone by, revisions have sought to keep up with the changing problems of public finance practice that practitioners have to deal with on a regular basis.

## SOME BACKGROUND ABOUT THE MARKET FOR THE TEXTBOOK

There are several significant features about public finance courses in the NASPAA programs that have to be recognized in producing a suitable textbook. A number of them represent real challenges for an author who is an economist, but some of the challenges actually make the work more interesting.

1. The students taking the course are driven to serve the public interest and to do something as soon as they graduate. They do not aspire to academic or research careers but they do intend to work in public service as public administrators or policy analysts.
2. The students come from a wide range of undergraduate fields, from French literature to theoretical physics. A considerable number have taken no economics courses during their undergraduate programs and many of them reject the idea that economic principles have any relevance at all. Depending on their graduate program, the public budgeting course may be as close as they come to an economics course in their program. The challenge is increased because many of the faculty teaching the budgeting course will not be economists, but will have degrees in

political science, law, or public administration, and a number will be practitioners in some segment of public finance who have no academic background in any discipline that we would consider to be closely related to public finance. “Excess burden” and other important concepts emerging from economic analysis do not naturally resonate with this audience and have to be introduced in less explicit fashion than could be done if the readers were skilled in microeconomic theory.

3. The students are perfectly capable of doctoral work but usually are not interested in the career paths taken by those with doctorates. The best are as good as the best doctoral students in economics, the best students in law schools, or the best graduate students in business administration.
4. The students are predominately more interested in spending/delivery of services than they are interested in taxation. That reflects the bias and blindspot of public administration in general. A reviewer of my book on Amazon.com writes: “The problem with Mikesell is that he has to write 200 pages (six chapters) to explain the concept of revenues in the budget process.” This individual much prefers a competing text that has but a single chapter on revenue (and 10 chapters on aspects of the processes of public spending, although its newest edition has expanded the revenue section to 2 chapters). That reflects a big difference between public finance for the public administration market and public finance for the traditional economics market.
5. Many public administration students revolt at quantitative analysis. The math has to be applied, simple, and demonstrably useful if it is to be in a textbook and used in a course for this market.
6. A good number of the students in such public finance courses are already working in government agencies or have worked for them in the recent past. They are keenly aware of what goes on in practice and can quickly judge whether the textbook presentations are generally in-line with the world as they see it and whether the material has quick applicability to them. Hence, it is important

that the textbook meet the needs both of the student with some practical public finance experience, as well as students absolutely new to the field.

### SOME OPERATIONAL PHILOSOPHY IN WRITING THE TEXTBOOK

With that background, you can easily understand the challenges that a public finance economist, particularly one focused on taxation, would face in writing a textbook for this market (and even in teaching a course for these students). I wrote the first edition out of total dissatisfaction with the books then available for the required budgeting class by tape recording my classes, having the results transcribed, and editing and adding as needed. The work was done on the fly, with organizing principles based on what I believed to be deficiencies in the available textbooks:

1. **Sensible Economics.** The economic analysis used in the text has to be simple because of the nature of the students taking the course, but it has to be solid. If I try to impress my friends in economics departments, I will lose many of those thinking about using my textbook. My objective is not to present public finance theory but to provide a practical application of theoretical principles to the world of public spending, taxing, and borrowing.
2. **Many Examples.** The discussions have to provide examples. Contrary to the approach of some of the social sciences, the plural of anecdote is still not data, but examples are helpful in describing basic principles. In the public affairs textbook market, a good story trumps a good regression equation and absolutely murders a mathematical proof. Examples come heavily from the news media. The *Wall Street Journal* is good, as is the *Washington Post*, but local newspapers can be great sources for problems in state and local finances. There is an abundant flow of strange public finance emerging from city halls, state capitols, narrow interest groups, as well as from Congress and the federal executive, and all these provide excellent opportunities for application of the principles of public finance and

budgeting. Government documents and information provided by former students in public finance careers are excellent as well. In addition, some blogs are also becoming useful sources of information. Sometimes longer cases for analysis can be written by combining information from several media sources and sometimes a single news story can stand on its own as a case.

3. **Real Problems.** To understand public finance as it is practiced, students have to work problems. For the public administration market, this does not mean solving for the new equilibrium price after imposition of an excise tax or calculating the size of a welfare cost triangle, but it does mean things like writing a budget request for a department of city government, analyzing such a request, practice review of a departmental budget, creating outcome measures for a budget request and distinguishing them from output or activity indicators, developing alternative budget classifications for municipal spending programs, preparing a small revenue forecast, calculating NIC and TIC for a municipal debt offering, or estimating the amount of marriage penalty or premium in an income tax structure. Graduates of these public administration programs are going to be practicing government finance as soon as they graduate, if not before they graduate, so these applications will be immediately relevant and necessary and give them a career advantage. The closer the exercises come to using “live ammunition” – doing work that will be immediately put into application – the better for the students.
4. **Spending.** A major portion of the book must include principles and applications of expenditure management (budget development, review, and execution, internal control, etc.). The students need to know how to develop a budget, how to evaluate proposals in a budget (and they will not be using cost-benefit analysis in the reality of spending decisions, but they do need to understand the basic principles), and how to manage budget execution. Such work will be the day-to-day life of the students taking the course and this course will be the only one covering such topics in the degree programs that many of

them will take. Appropriation of public funds will be political decisions (and even here there are lessons to be learned in the course), but there are techniques that public finance professionals use to shape and analyze budgets and appropriations and those have to be part of the textbook. Reports, handbooks, and standards developed by the World Bank, the International Monetary Fund, the Asian Development Bank, and the like can be helpful in identifying best practices and in illustrating their application.

5. **Taxation.** Chapters on taxation have to focus on the tax structures on the ground, not the general or idealized structures from the economics of taxation. These include the real property tax as it is levied, the retail sales taxes, the value added taxes, and so on. General analysis of taxes on income, wealth, and consumption will not serve the students particularly well. Because these students will be staffers for lawmakers, they need to understand tax policy, tax structures, and all the blemishes on the taxes being levied in the field. The structures are important because they are what the students will confront on their jobs. The quest for economic efficiency has limited natural resonance for these students (reflecting the attitudes of American politicians and the public in general), so the arguments have to be structured with concrete illustrations as much as possible. Violations of economic efficiency do not bring cause riots in the street or even the attention of most right-wing talk radio hosts.

## CONCLUSION

Writing a textbook is time consuming and directs resources away from research and scholarly publication. Unless you know exactly why you are writing it, meaning why there might be a particular demand for your twist of the topic, textbook authorship is a poor use of your resources. Say’s Law does not apply to textbooks. For a textbook used in a professional degree program, considerable attention has to be directed to linking the text material to work in typical career paths. The task must take account of the background of faculty and students who would use the book, the programs in which

the course is being offered, and the eventual career objectives of the students. While a public finance textbook for the graduate economics market may appropriately seek to build a framework for the next generation of academia and research to use in its pursuit of public finance thought, a text for a public administration program aims to put the best public finance logic into practice and, accordingly, to reduce the gap between theory and practice. Mixing the two sorts of public finance textbooks does a disservice to both sets of students. *Fiscal Administration* aims to bring intelligent beginners up to basic functionality in applied public finance, that is, to provide what public managers

and policy analysts need to know about public finance and budgeting immediately and to prepare them for the tasks they will face imminently and to give them enough broad understanding that they can adjust to changes in their operating environments. In other words, it seeks to create competent professionals in the practice of public finance.

#### References

Mikesell, John L. *Fiscal Administration, Analysis and Applications for the Public Sector*. 7<sup>th</sup> ed. Belmont, CA: Thomson Wadsworth, 2007.