

Economics of the Public Sector

Course Content: This course will cover the major topics in public finance. We will examine the theoretical and empirical issues concerning the provision and allocation of public goods and services, positive and normative aspects of taxation, and fiscal federalism. This course is taught with the expectation that students have completed Economics 201.

Office Hours: Office hours will be held in Vollum 227 on Mondays and Wednesdays from 10-11am and on Thursdays from 3-4pm. Students who are unable to come during these times are encouraged to make an appointment.

Text and Required Reading: The principal text for this course is *Public Finance* (7th edition) by Harvey S. Rosen. In addition to the text, students are responsible for the required readings and for additional readings that will occasionally be announced in class. Students are expected to contribute by integrating, when appropriate, current public finance issues drawn from the business, financial, and general press into class discussions and by posting relevant articles on the appropriate Moodle forum. *Congressional Quarterly*, *The Wall Street Journal*, *The New York Times*, and *The Economist* are highly recommended. Every student should be prepared to contribute meaningfully to every class session.

Evaluation: Evaluation will be based on the following assignments and on your participation in class discussions:

Problem sets: February 13th, February 27th, and April 10th
Conferences: February 11th (education reform), March 6th (health care reform) and April 24th (tax reform)
Midterm: March 13th
Final exam: date and time to be confirmed by the Registrar's Office

Materials on Reserve: The following books are on 2-hour reserve. Required readings are available on the course Moodle page (<https://moodle.reed.edu/>). Supplementary readings (marked with a *) provide more detailed information about a topic.

Rosen, Harvey S. 2004. *Public Finance* (7th edition) Irwin/McGraw Hill: Chicago, IL.
Slemrod, Joel and Jon Bakija. 2008. *Taxing Ourselves: A Citizen's Guide to the Debate over Taxes* (4th edition) The MIT Press: Cambridge, MA.

Outline and Reading List

I. Introduction and Methodology

January 26: Introduction

Rosen, Chapter 1

Aaron, Henry J. 2009. Memo to the President: Reform Health Care Brookings, Memos to the President, No. 12.

Blank, Rebecca M. 2008. Memo to the President: Decrease Poverty and Increase Opportunity Brookings, Memos to the President, No. 3.

Gale, William G. and Benjamin Harris. 2008. Memo to the President: Fix the Tax System Brookings, Memos to the President, No. 4.

*Wallis, John J. 2000. American Government Finance in the Long Run: 1790 to 1990. *Journal of Economic Perspectives* (Winter) 14: 61-82.

*Menchik, Paul L. 1991. The Distribution of Federal Expenditures. *National Tax Journal* XLIV: 269-276.

*Borcherding, Thomas E. 1985. The Causes of Government Expenditure Growth: A Survey of the U.S. Evidence. *Journal of Public Economics* 28: 359-382.

January 28: Positive Analysis

Rosen, Chapter 2

Cooter, Robert and Brian J. Broughman. 2005. Charity, Publicity, and the Donation Registry. *The Economists' Voice* 2(3).

Sykes, Alan O. 1993. An Introduction to Regression Analysis The University of Chicago Law and Economics Olin Working Paper No. 20.

*Isaac, R. Mark and James M. Walker. 1988. Communication and Free-Riding Behavior: The Voluntary Contribution Mechanism. *Economic Inquiry* 26: 585-608.

January 30: Normative Analysis

Rosen, Chapter 3

February 2 and 4: Cost-Benefit Analysis

Rosen, Chapter 11

The Economist. 2005. Vaccination: A Drop of Pure Gold (October 15): 85-86.

Burnett, Jason K. and Robert W. Hahn. 2001. A Costly Benefit: Economic Analysis Does Not Support EPA's New Arsenic Rule *Regulation* (Fall): 44-49.

Hahn, Robert W. 2005. The Economics of Rebuilding Cities: Reflections after Katrina. *The Economists' Voice* 2(4).

Hahn, Robert W. and Cass R. Sustein. 2005. The Precautionary Principle as a Basis for Decision Making. *The Economists' Voice* 2(2).

Brinckman, Jonathan. 2002. Hatchery Salmon Prove Costly. *The Oregonian* (May 12): A1.

*Kelman, Steven. Cost-Benefit Analysis: An Ethical Critique. In Glickman, Theodore S. and Michael Gough (eds.). 1990. *Readings in Risk* Washington, D.C.: Resources for the Future.

*Butters, Gerard et al. Reply to Steven Kelman. In Glickman, Theodore S. and Michael Gough (eds.). 1990. *Readings in Risk* Washington, D.C.: Resources for the Future.

II. Public Goods

February 6 and 9: The Theory of Public Goods

Rosen, Chapter 4 (to page 70)

Levin, Henry M. 1987. Education as a Public and Private Good. *Journal of Policy Analysis and Management* 6: 628-639.

Weisbrod, Burton A. 1989. Rewarding Performance that is Hard to Measure: The Private Nonprofit Sector. *Science* 244 (4904): 541-546.

Malani, Anup and Eric A. Posner. 2006. The Case for For-Profit Charities The University of Chicago Law and Economics Olin Working Paper No. 304.

*Demsetz, Harold. 1970. The Private Production of Public Goods. *Journal of Law and Economics* 13: 293-306.

February 11: Education Policy
Conference #1: Public school reform - is competition the answer?

Rosen, Chapter 4 (page 70-76)

Levin, Henry M. 1998. Educational Vouchers: Effectiveness, Choice, and Costs *Journal of Policy Analysis and Management* 17(3): 373-392.

Ladd, Helen. 2002. School Vouchers: A Critical View. *Journal of Economic Perspectives* 16 (4): 3-24.

*Angrist, Joshua, Eric Bettinger, and Michael Kremer. 2006. Long-Term Educational Consequences of Secondary School Vouchers: Evidence from Administrative Records in Columbia. *American Economic Review* (June): 847-862.

*Downes, Thomas A. 1992. Evaluating the Impact of School Finance Reform on the Provision of Public Education: The California Case. *National Tax Journal* XLV: 405-421.

III. Theory of Externalities

February 13 and 16: Theory and Applications

Rosen, Chapter 5.

Bayon, Ricardo. 2002. A Bull Market in...Woodpeckers? *The Milken Institute Review* (First Quarter): 30-39.

Goulder, Lawrence H. and Ian W.H. Parry. 2008. Instrument Choice in Environmental Policy *Review of Environmental Economics and Policy* 2(2): 152-174.

*Coase, Ronald. 1960. The Problem of Social Cost. *Journal of Law and Economics* (October): 1-44.

IV. Collective Choice and Voting

February 18 and 20: Collective Choice and Voting

Rosen, Chapter 6.

Caplan, Bryan. 2008. What if the Median Voter Were a Failing Student? *The Economists' Voice* 5(6).

Edlin, Aaron S., Andrew Gelman and Noah Kaplan. 2008. Vote for Charity's Sake *The Economists' Voice* 5(6).

Blinder, Alan. 1997. Is Government Too Political? A Question of Balance. *Foreign Affairs*. November/December 76: 115-126.

Berman, Sheri and Kathleen R. McNamara. 1999. Bank on Democracy. *Foreign Affairs*. March/ April: 2-8.

*Schultze, Charles L. 1992. Is There a Bias Toward Excess in U.S. Government Budgets or Deficits? *Journal of Economic Perspectives* 6: 25-44.

*Stiglitz, Joseph. 1998. The Private Uses of Public Interests: Incentives and Institutions. *Journal of Economic Perspectives* (Spring) 12: 3-22.

V. Income Transfer Programs

February 23 and 25: The Theory of Income Redistribution

Rosen, Chapter 7.

Thurow, Lester. 1971. Income Distribution as a Pure Public Good. *Quarterly Journal of Economics* 85 (2): 327-336.

Isaacs, Julia and Isabel Sawhill. 2008. Reaching for the Prize: The Limits on Economic Mobility. *The Milken Institute Review* (Fourth Quarter): 18-27.

* Isaacs, Julia B., Isabel V. Sawhill, and Ron Haskins. 2008. Getting Ahead or Losing Ground: Economic Mobility in America The Brookings Institution.

*Browning, Edgar K. and William R. Johnson. 1984. The Trade-Off between Equality and Efficiency. *Journal of Political Economy* 92: 175-203.

*Tobin, James. 1970. On Limiting the Domain of Inequality. *Journal of Law and Economics* 13: 263-276.

*Rawls, John. 1985. Concepts of Distributional Equity: Some Reasons for the Maximin Criterion. *American Economic Review* 64: 141-146.

February 27 and March 2: Expenditure Programs for the Poor: Past and Future

Rosen, Chapter 8.

Blank, Rebecca M. 2000. Fighting Poverty: Lessons from Recent U.S. History. *Journal of Economic Perspectives* 14: 3-19.

Holt, Steve. 2006. The Earned Income Tax Credit at Age 30: What We Know The Brookings Institution Research Brief (February)

Haskins, Ron. 2008. Making Work Pay - Again Brookings Center on Children and Families (September)

Zedlewski, Sheila R. 2008. The Role of Welfare During a Recession Urban Institute Recession and Recovery, No. 3

Finegold, Kenneth. 2008. SNAP and the Recession Urban Institute Recession and Recovery, No. 4.

Williams, Robertson and Elaine Maag. 2008. The Recession and the Earned Income Tax Credit Urban Institute Recession and Recovery, No. 5.

*Ellwood, David T. 2000. Anti-Poverty Policy for Families in the Next Century: From Welfare to Work - and Worries. *Journal of Economic Perspective* 14: 187-198.

*Blank, Rebecca M. 2006. Was Welfare Reform Successful? *The Economists' Voice* (March).

*Holtzblatt, Janet, Janet McCubbin, and Robert Gillette. 1994. Promoting Work Through the Earned Income Tax Credit. *National Tax Journal*, XLVII: 591-607.

*Rogers, Diane Lim and Alan Weil. 2000. Welfare Reform and the Role of Tax Policy. *National Tax Journal* LIII: 385-402.

VI. Health Care

March 4: Medical Programs

Rosen, Chapter 10

Hartman, Micah, Anne Martin, Patricia McDonnell and Aaron Catlin. 2009. National Health Spending in 2007: Slower Drug Spending Contributes to Lowest Rate of Overall Growth Since 1998. *Health Affairs* (Jan/Feb): 246-261.

Dorn, Stan. 2008. Health Coverage in a Recession Urban Institute Recession and Recovery, No. 6.

Porter, Michael E. and Elizabeth Olmsted Teisberg. 2004. Redefining Competition in Health Care. *Harvard Business Review* (June) 65-76.

*Aaron, Henry J. 2005. Health Care Rationing: What it Means *The Brookings Institution Policy Brief* #147

*Herzlinger, Regina E. 2002. Let's Put Consumers in Charge of Health Care. *Harvard Business Review* (July): 44-55.

Christensen, Clayton M., Richard Bohmer, and John Kenagy. 2000. Will Disruptive Innovations Cure Health Care? *Harvard Business Review*. (September-October): 102-111.

*Point/Counterpoint *Journal of Policy Analysis and Management* (November 29, 2006).

March 6: Health Care Reform

Conference #2: Is there a case for providing universal health care?

Fuchs, Victor R. and Ezekiel J. Emanuel. 2005. Health Care Reform: Why? What? When? *Health Affairs* 24(6): 1399-1414.

VII. Social Security and Unemployment Insurance

March 9 and 11

Rosen, Chapter 9

Magin, Konstantin. 2007. Why Liberals Should Enthusiastically Support Social Security Personal Accounts *The Economists' Voice* 4(6).

Sawhill, Isabel and Emily Monea. 2008. Revising the Intergenerational Contract. Brookings Center on Children and Families.

Simms, Margaret and Daniel Kuehn. 2008. Unemployment Insurance During a Recession Urban Institute Recession and Recovery, No. 2.

*Fullerton, Don and Michael Geruso. 2006. The Many Definitions of Social Security Privatization. *The Economists' Voice* 3(4), Article 3.

* Special Issue on Social Security *The Economists' Voice* Volume 2 (1).

*Kotlikoff, Laurence J. and Scott Burns. 2004. *The Coming Generational Storm: What You Need to Know about America's Economic Future*. The MIT Press: Cambridge, MA.

*Point/Counterpoint on Social Security *Journal of Policy Analysis and Management* (June 7, 2006)

VIII. Principles of Taxation

March 23, 25, 27, 30, April 1 and 3: Incidence and Excess Burden of Taxation

Rosen, Chapters 12, 13 (and appendices) and 14

Grainger, Corbett A. and Charles D. Kolstad. 2008. Who Pays for a Carbon Tax? Working Paper (December 10).

Postrel, Virginia. 2000. The U.S. Tax System is Discouraging Married Women from Working. *The New York Times* (November 2): C2.

Slemrod, Joel. 2007. Cheating Ourselves: The Economics of Tax Evasion *Journal of Economic Perspectives* 21(1): 25-48.

*Slemrod, Joel. 1990. Optimal Taxation and Optimal Tax Systems. *Journal of Economic Perspectives* 4: 157-178.

*Samuelson, P. 1986. Theory of Optimal Taxation. *Journal of Public Economics* 30: 137-143.

*Sandmo, A. 1976. Optimal Taxation: An Introduction to the Literature. *Journal of Public Economics* 6: 37-54.

IX. The United States Tax Structure

April 6 and 8: Individual Income Tax

Rosen, Chapter 15.

Burman, Leonard E., William G. Gale, Gregory Leiserson, and Jeffrey Rohaly. 2007. Options to Fix the AMT Urban-Brookings Tax Policy.

Oregon Legislative Revenue Office. 2007. Oregon Public Finance Basic Facts (2007) Research Report #1-07 (part A).

*Burman, Leonard E., William G. Gale and Jeffrey Rohaly. 2005. The Expanding Reach of the Individual Alternative Minimum Tax. Tax Policy Center - Urban Institute (May 31).

*Viard, Alan D. 2006. The Looming Challenge of the Alternative Minimum Tax Economic Letter: Federal Reserve Bank of Dallas (August).

April 10 and 13: Personal Taxation and Behavior

Rosen, Chapter 16.

Edlin, Aaron S. 2005. The Choose-your-Charity Tax: A Way to Incentivize Greater Giving. *The Economists' Voice* 2(3).

Frank, Robert H. 2005. Progressive Consumption Taxation as a Remedy for the U.S. Savings Shortfall. *The Economists' Voice* 2(3).

April 15: Corporate Taxation

Rosen, Chapter 17

Oregon Legislative Revenue Office. 2007. Oregon Public Finance Basic Facts (2007) Research Report #1-07 (focus on the corporate income sections in part C).

*McClure, Charles E. 1981. The Elusive Incidence of the Corporate Income Tax: The State Case. *Public Finance Quarterly* 9: 395-413.

*Gravelle, Jane G. 1995. The Corporate Income Tax: Economic Issues and Policy Options. *National Tax Journal* XLVIII: 267-278.

April 17: Deficit Finance

Rosen, Chapter 18.

Hahn, Robert and Peter Passell. 2009. Is Trillion the New Billion? *The Economists' Voice* 6(1).

*Barro, Robert J. 1989. The Ricardian Approach to Budget Deficits *The Journal of Economic Perspectives* 3(2): 37-54.

*Bernheim, B. Douglas. 1989. A Neoclassical Perspective on Budget Deficits *The Journal of Economic Perspectives* 3(2): 55-72.

*Kotlikoff, Laurence J. 2006. Averting America's Bankruptcy with a New New Deal. *The Economists' Voice* 3 (2).

*Gale, William G. and Peter R. Orszag. 2004. The Budget Outlook: Projections and Implications. *The Economists' Voice* 1(2).

*Boskin, Michael J. 2004. Sense and Nonsense about Federal Deficits and Debt. *The Economists' Voice* 1(2).

April 20 and 22: Sales and Excise Taxes, Wealth Taxes, Revenue Generation through Lotteries

Rosen, Chapter 19

Viscusi, W. Kip. 1994. Promoting Smokers' Welfare with Responsible Taxation. *National Tax Journal* XLVII: 547-558.

Clotfelter, Charles T. and Philip J. Cook. 1990. On the Economics of State Lotteries. *Journal of Economic Perspectives* 4(4): 105-119.

Rohaly, Jeffrey, Leonard E. Burman, and William G. Gale. 2005. Options for Reforming the Estate Tax Brookings, Tax Break.

*Cook, Philip J. and Michael J. Moore. 1994. This Tax's for You: The Case for Higher Beer Taxes. *National Tax Journal* XLVII: 559-573.

*Gale, William G. and Joel Slemrod. 2001. Rhetoric and Economics in the Estate Tax Debate The Brookings Institution (May 22)

*Rousso, Ada S. and Shvetank P. Shah. 1994. Packaging Taxes and Recycling Incentives: The German Green Dot Program. *National Tax Journal* XLVII: 689-701.

*Chan, Sewell. 2005. Driving in Manhattan? You Pay, Under One Idea. *The New York Times* (November 11).

April 24: Tax Reform

Conference #3: *Should the United States tax all corporate and personal income at a single flat rate?*

Slemrod, Joel and Jon Bakija. 2008. *Taxing Ourselves: A Citizen's Guide to the Debate Over Taxes* (4th edition) MIT Press: Cambridge, MA. (especially chapters 6 and 7).

*A Special Issue on Tax Reform *The Economists' Voice* 3(1)

X. Fiscal Federalism

April 27, 29 and May 1

Rosen, Chapter 20.

Oates, Wallace E. 2008. The Evolution of Fiscal Federalism: Theory and Institutions. *National Tax Journal* 61(2): 313-334.

*Donahue, John D. 1997. Tiebout? Or Not Tiebout? The Market Metaphor and America's Devolution Debate. *Journal of Economic Perspectives*. (Fall): 73-82.

*Inman, Robert and Rubinfeld, Daniel. 1997. Rethinking Federalism. *Journal of Economic Perspectives*. (Fall): 43-64.

*Quigley, John M. and Daniel L. Rubinfeld. 1996. Federalism and Reductions in the Federal Budget. *National Tax Journal*: 289-302.

*Oates, Wallace E. 1981. On Local Finance and the Tiebout Model. *American Economic Review* 71: 93-98.

Assignment List, Due Dates, and Exam Schedule

The following is a list of assignments and due dates. All assignments are due in class on the date listed below. In fairness to other students, late assignments will be penalized 1 grade for each day or partial day past the due date. Assignments handed in more than 3 days after the due date will not be accepted.

Collaboration, Citations and the Honor Principle

All work submitted during this course is expected to reflect the effort of the individual whose name appears on top of the page. You are encouraged to work with friends, tutors and instructors on assignments. However, when the time comes to write up your work for submission, it must be your work written in your own words. The Economics Department Citation Guide (available on the class Moodle page) should be used for citations in problem sets and the conference brief. All exams are to be taken closed book, closed notes and without any collaboration.

Examinations

The midterm exam is on Friday, March 13th. The comprehensive final exam will be given during finals week. The exact date and time of the final will be confirmed in the second part of the semester by the Registrar's Office.

Problem Set Due Dates:

Problem Set	Date Distributed	Date Due
Problem Set 1	February 6	February 13
Problem Set 2	February 20	February 27
Problem Set 3	April 3	April 10

Conferences

Students will be divided into six groups with approximately three people in each group. Each group will be responsible for one presentation – I recommend using PowerPoint. The presentations will be approximately 15 minutes long allowing 20 minutes for rebuttal and discussion; it is expected that all group members will participate in the research, creation, and presentation of the topic to the class. Presentations should be informative, practiced, and clear.

In addition to the presentation, each group should write a “brief” of 5 pages that summarizes the main arguments and evidence in a clear and well-documented fashion. The brief should be in outline form where the main points of the argument are given and briefly discussed. Citations should use the format detailed in the Economics Department citation guide. This brief should be posted on Moodle no later than 5pm on the day before the conference.

Evaluation will be based on the brief, presentation, and your thoughtful participation in discussions for your conference and the other two conferences.