

BOSTON COLLEGE
Department of Economics

EC 865.01
Fall 1995-96

Richard Tresch

Public Sector Economics I

Course Requirements: Final examination (50%) and a short paper on one of the topics from Part II of the syllabus (50%). I encourage you to present your paper to the class, although the presentation is optional and I will only grade your paper, not your presentation. The paper is due on the day of the last class meeting.

Textbook: Richard Tresch, Public Finance: A Normative Theory (hereafter, Tresch)

Two other frequently cited reference texts are:

A.B. Atkinson and J. Stiglitz, Lectures on Public Economics (hereafter, Atkinson, Stiglitz)

A.J. Auerbach and M. Feldstein, Handbook of Public Economics, Vols. I and II (hereafter, Handbook)

The syllabus contains two parts. Part I covers the theoretical foundations of classical, first-best public sector analysis. Part II offers readings on a number of topics of recent professional interest. The topics in Part II are mostly empirical and tend not to be discussed in my text. We will consider a selection of them when appropriate, approximately in the order listed below.

I. The First-Best Theory of the Public Sector

A. Background and Overview-- Issues and Methods

Tresch, Chs. 1-4 (especially Chs. 2 and 3)

Also: Atkinson, Stiglitz, Ch. 11

R. Musgrave, "A Brief History of Fiscal Doctrine," in Handbook, Vol. I, (pp. 1-25 relate to the material of EC 865).

R. Inman, "Markets, Government, and the 'New' Political Economy," Ch. 12 in Handbook, Vol. II (This excellent, wide-ranging survey will make more sense after a year's study. You might try pp. 647-674 and 753-765 early on).

J. Buchanan, "The Constitution of Economic Policy," AER, June, 1987 (This is Buchanan's Nobel lecture, which summarizes the very different view of public sector economics held by him and his followers of the Public Choice school).

B. The Social Welfare Function

1. Arrow's Impossibility Theorem and Majority Voting Difficulties

A. Feldman, Welfare Economics and Social Choice Theory, Chs 9, 10; 11(optional).

Also: R. Boadway and D. Wildasin, Public Sector Economics, Ch. 6, pp. 138-154; Ch. 10, pp. 269-277.

2. Properties of the Social Welfare Function (optional--for reference only--on the ordinal property of the social welfare function, addressing an issue I left muddled in my text).

P. Samuelson, "Bergsonian Welfare Economics," in S. Rosefield (ed.), Economic Welfare and the Economics of Soviet Socialism, pp. 223-231.

K. Arrow, "Contributions to Welfare Economics," in E.C. Brown and R. Solow (eds.), Paul Samuelson and Modern Economic Theory.

C. Public Expenditure Theory

1. Externalities and Public Goods

Tresch, Chs. 5-8.

Also: W. Baumol and W. Oates, The Theory of Environmental Policy, 2nd ed., 1988, Ch. 8.

Additional reference: W. Oakland, "Theory of Public Goods," Ch. 9 in Handbook, Vol. II.

2. Decreasing Cost Production

Tresch, Chs. 9,10.

D. First-best Tax Theory--Equity in Taxation

1. Underlying Theory

Review Tresch, Ch. 2, pp. 37-42; Ch. 4, pp. 81-85.

Tresch, Ch. 12, pp. 252-253.

Also: Atkinson, Stiglitz, Ch. 11, pp. 333-343.

W. Hettich and S. Winer, "Blueprints and Pathways: The Shifting Foundations of Tax Reform," National Tax Journal, December, 1985.

2. The Public Choice Perspective--Self-interested Redistribution

a. Overview

J. Rodgers, "Explaining Income Redistribution," in H. Hochman and G. Peterson (eds.), Redistribution Through Public Choice.

b. Pareto-optimal redistribution

Tresch, Ch. 12, pp. 253-260. (See, also, 3 comments on Orr empirical study referenced in Tresch, in AER, December 1978).

R. Boadway and D. Wildasin, Public Sector Economics, pp. 66-69, 113-118.

J. Andreoni, "Privately Provided Public Goods in a Large Economy: The Limits of Altruism," Journal of Public Economics, February, 1988.

E. Olsen, D. Rogers, "The Welfare Economics of Equal Access," Journal of Public Economics, June, 1991.

c. Public insurance

L. Friedman, Microeconomic Policy Analysis, Ch. 6.

R. Boadway and D. Wildasin, Public Sector Economics, Ch. 14 on Social Insurance.

d. Voting for transfers to oneself

A. Feldman, Welfare Economics and Social Choice Theory, Ch. 9 (especially pp. 162-164, 171-175).

3. Toward Application--Horizontal and Vertical Equity

Tresch, Ch. 13, pp. 261-274.

Atkinson, Stiglitz, Ch. 11, pp. 350-356.

H. Young, "Distributive Justice in Taxation," Journal of Economic Theory, April, 1988, along with his empirical companion piece:

H. Young, "Progressive Taxation and Equal Sacrifice," AER, March, 1990.

R. Musgrave, "A Brief History of Fiscal Doctrine," pp. 15-25, in Handbook, Vol. I.

R. Musgrave, "Horizontal Equity, Once More," National Tax Journal, June, 1990.

A. Auerbach, "Retrospective Capital Gains Taxation," AER, March, 1991.

S. Sheffrin, "What Does the Public Believe About Tax Fairness?" National Tax Journal, September 1993, pp. 301-303

E. Fiscal Federalism

1. The Sorting of Functions: Which Governments Do What?

Tresch, Chs. 29, 30 (primarily Ch. 30).

D. Rubinfeld, "The Economics of the Local Public Sector," Ch. 11 in Handbook, Vol. II, pp. 625-634.

D. Wildasin, "Theoretical Analysis of Local Public Economics," Ch. 29. in E. Mills (ed.), Handbook of Regional and Urban Economics, Vol. 2 (especially sections 2,3,4).

2. The Sorting of People: Jurisdiction Formation and Mobility With Public Goods Supply

Tresch, Ch. 29.

D. Rubinfeld, "The Economics of the Local Public Sector," in Handbook, Vol. II, pp. 574-601.

J. Stiglitz, "The Theory of Local Public Goods," in M. Feldstein and R. Inman (eds.), The Economics of Public Services. (Difficult going, but a classic, worth some effort. Reproduced in abridged form in Atkinson, Stiglitz, Ch. 17. The original is clearer).

T. Bewley, "A Critique of Tiebout's Theory of Local Public Expenditures," Econometrica, 1981, p. 713 (another classic).

B. Hohaus, et.al., "Too Much Conformity? A Hotelling Model of Public Goods Supply," Economic Letters, 44/3, 1994 (Follows the Pauly model in my text).

For reference: Two sophisticated, current generation models of the location decision. Very difficult, but worth careful study if you become interested in these types of models.

D. Epple, et. al., "Existence of Voting and Housing Equilibrium In a System of Communities With Property Taxes," Regional Science and Urban Economics, November 1993.

J. Henderson, "Community Choice of Revenue Instruments," Regional Science and Urban Economics, April 1994.

Additional wrinkles, for reference:

S. Rose-Ackerman, "Beyond Tiebout: Modelling the Political Economy of Local Government," and B. Hamilton, "A Review: Is the Property Tax a Benefit Tax?," both in G. Zodrow (ed.), Local Provision of Public Services: The Tiebout Model After 25 Years.

J.V. Henderson, "The Tiebout Model: Bring Back the Entrepreneurs," Journal of Political Economy, April, 1985.

Finally, the following three papers use a modelling approach that incorporates a broad spectrum of the federalism literature. The first considers efficiency, the second adds equity, and the third is an empirical exercise that supports the approach:

E. Berglas, "Distribution of Tastes and Skills and the Provision of Local Public Goods," Journal of Public Economics, 1976.

R. Tresch, "Optimal Fiscal Federalism in a First-best Environment with Dynastic Social Welfare," B.C. Working Paper.

J.V. Henderson, "Population Composition of Cities: Restructuring the Tiebout Model," Journal of Public Economics, July, 1985.

a. The distribution function and mobility

C. Brown and W. Oates, "Assistance to the Poor in a Federalist System," Journal of Public Economics, April, 1987.

W. Johnson, "Income Redistribution in a Federal System," AER, June, 1988, along with his empirical study:

W. Johnson, "Decentralized Income Redistribution Reconsidered," Economic Inquiry, January, 1991.

D. Epple, T. Romer, "Mobility and Redistribution," Journal of Political Economy, August, 1991. (An earlier related paper using the same type of model that explores the problem of establishing an equilibrium with public goods is:

D. Epple, et. al., "Equilibrium Among Local Jurisdictions: Toward an Integrated Treatment of Voting and Residential Choice," Journal of Public Economics, August, 1984. Note: not an easy paper--for reference).

J. Persky, "Suburban Income Inequality: Three Theories and a Few Facts," Regional Science and Urban Economics, June, 1990.

D. Wildasin, "Income Redistribution With a Common Labor Market," AER, September, 1991 (relevant to the European Union). Also, D. Wildasin, "Income Redistribution and Migration," Canadian Journal of Economics, August 1994. (For reference: A companion piece to his EU article).

3. The Role of Grants-in-Aid in a Federalist System

Tresch, Ch. 31, pp. 601-606, 614-642.

J. Alm, "The Optimal Structure of Intergovernmental Grants," Public Finance Quarterly, October, 1983, or

J. Alm, "Intergovernmental Grants and Social Welfare," Public Finance, 1983, No. 3.

K. Bradbury, et. al., "State Aid to Offset Fiscal Disparities Across Communities," National Tax Journal, June, 1984.

T. Downs, T. Pogue, "Adjusting School Age Formulas for the Higher Cost of Educating Disadvantaged Students," plus the "Symposium on Fiscal Equalization," National Tax Journal, March 1994.

F. Postscript on First-best Theory

How useful is first-best theory? Not very, according to Peter Hammonds. See: P. Hammonds, "Theoretical Progress in Public Economics: A Provocative Assessment," Oxford Economic Papers, January, 1990 (Special Issue on Public Economics--incidentally, OEP runs occasional special issues on a variety of topics and fields).

I think Hammonds' viewpoint is too limited. If you agree with Hammonds, though, help is on the way. Richard Arnott will take you down Hammonds' preferred second-best roadways next term.

II. Selected Topics (in approximate order of presentation)

A. The Social Welfare Function in Empirical Analysis

1. Social Welfare and Income

L. Friedman, Microeconomic Policy Analysis, pp. 42-47.

A. Atkinson, The Economics of Inequality, 2nd ed., section 3.4, pp. 53-59.

A. Atkinson, "On the Measurement of Inequality," Journal of Economic Theory, 1970.

A. Sen, "Ethical Measurement of Inequality: Some Difficulties," in A. Sen, Choice, Welfare, and Measurement.

J. Bishop, J. Formby, W. Smith, "Lorenz Dominance and Welfare: Changes in the U.S. Distribution of Income," 1967-86," Review of Economics and Statistics, February, 1991.

For reference: An excellent survey of the relationship between income measures of inequality and social welfare is P. Lambert, "Estimating Impact Effects of Tax Reforms," Journal of Economic Surveys, September, 1993.

2. Social Welfare and Consumer Expenditures

D. Jorgenson, "Aggregate Consumer Behavior and the Measurement of Social Welfare," Econometrica, September, 1990 (pp. 1001-1017 outline the Jorgenson-Slesnick approach to measuring social welfare from estimated individual demand equations--very good on the restrictive assumptions required by this approach. The remainder of the article covers the messy econometric details).

An interesting application related to poverty suggesting that poverty is less of a problem than we are led to believe is D. Slesnick, "Gaining Ground: Poverty in the Postwar United States," Journal of Political Economy, February, 1993.

Note cautions to Jorgenson/Sleznick registered by:

F. Fisher, "Household Equivalence Scales and Interpersonal Comparisons," Review of Economic Studies, July, 1987.

C. Blackorby, D. Donaldson, "Money Metric Utility: A Harmless Normalization?," Journal of Economic Theory, October, 1988 (important message, but rough going--a reference article for theorists only).

Another related paper of interest:

S. Yitzhaki, J. Slemrod, "Welfare Dominance: An Application to Commodity Taxation," AER, June, 1991.

3. Process Equity: Social Mobility

V. Dardanoni, "Measuring Social Mobility," Journal of Economic Theory, December, 1993, pp. 372-380, 384-386.

T. Hungerford, "U.S. Income Mobility in the Seventies and Eighties," Review of Income and Wealth, December, 1993.

B. Policy Issues in the Control of Pollution

1. Current U.S. Policy

A. Blinder, Hard Heads, Soft Hearts, Chapter 5.

For the recent 1990 policy changes in U.S. air pollution policy, see:
P. Portney, "Policy Watch: Economics and the Clean Air Act,"
Journal of Economic Perspectives, Fall, 1990.

2. Direct Controls, Taxes, and Marketable Permits

W. Baumol, W. Oates, The Theory of Environmental Policy, 2nd edition, Chs. 5, 11-13, 15.

M. Cropper, W. Oates, "Environmental Economics: A Survey,"
Journal of Economic Literature, June 1992 (especially parts II and III).

A recent study of the advantages of market-based strategies over controls is N. Hanley, I. Moffatt, "Efficiency and Distributional Aspects of Market Mechanisms in the Control of Pollution," Scottish Journal of Political Economy, February 1993.

T. Barthold, "Issues in the Design of Environmental Excise Taxes,"
Journal of Economic Perspectives, Winter 1994. (A nice overview of U.S. tax policies that have an impact on the environment).

For specific analyses of actual non-optimal pollution policies, see:
W. Oates, *et. al.*, "The Net Benefit of Incentive-Based Regulation: A Case Study of Environmental Standard Setting," AER, December, 1989 (empirical).

D. Brito, E. Sheshinski, M. Intriligator, "Externalities and Compulsory Vaccinations," Journal of Public Economics, June, 1991 (theoretical).

3. On the Benefits of Reducing Pollution

M. Cropper, W. Oates, "Environmental Economics: A Survey,"
Journal of Economic Literature, June 1992 (parts IV and V).

P. Portney, J. Mullahy, "Urban Air Quality and Respiratory Disease," Regional Science and Urban Economics, November, 1990 (A nice study that, to my mind, highlights how little we know).

Another instance of how little we know about environmental damage relates to the current concern about global warming. See the Symposium on "Global Climate Change" in the Journal of Economic Perspectives, Fall 1993, particularly the articles by W. Nordhaus and J. Poterba.

C. The Free Rider Problem

Tresch, Ch. 6, pp. 119-121.

T. Tideman and G. Tullock, "A New and Superior Process for Making Social Choices," Journal of Political Economy, December, 1976.

Free riding behavior has been the subject of much experimental testing, often with economics students as subjects. Two well-known original experiments are: P. Bohm, "Estimating Demand for Public Goods: An Experiment," European Economic Review, Vol. 3, No. 2, 1972 (something of a classic); and F. Schneider and W. Pommerhene, "Free Riding and Collective Action: An Experiment in Public Microeconomics," Quarterly Journal of Economics, November, 1981.

Interest in free-riding experimentation continues. See:

R. Isaac, "Group Size and Voluntary Provision of Public Goods," Journal of Public Economics, May, 1994

J. Weimann, "Individual Behavior in a Free Riding Experiment," Journal of Public Economics, June, 1994.

J. Andreoni, "Warm Glow vs. Cold Prickly--The Effects of Positive and Negative Framing on Cooperation in Experiments," Quarterly Journal of Economics, February 1995.

1. On the Coase Theorem and Externalities

G.W. Harrison, et. al., "Coasian Solutions to the Externality Problem in Experimental Markets," Economic Journal, June, 1987.

V. Aivazian, et. al., "The Coase Theorem and Coalitional Stability," Economica, November, 1987.

J. Farrell, "Information and the Coase Theorem," Journal of Economic Perspectives, Fall, 1987.

E. Masken, "The Invisible Hand and Externalities," AEA Papers and Proceedings, (AER), May 1994.

D. Tax Reform

1. Overview

Tax Reform for Fairness, Simplicity, and Economic Growth, Vol. I, U.S. Department of the Treasury, November, 1984 (hereafter, Treasury I), Overview, pp. vii-xix; Ch. 2; Appendix 4A, pp. 57-61.

J. Pechman, "Tax Reform: Theory and Practice," and

C. McLure, G. Zodrow, "Treasury I and the Tax Reform Act of 1986: The Economics and Politics of Tax Reform," both in the Journal of Economic Perspectives, Summer, 1987.

2. Tax Income or Expenditures?: Equity and Administrative Issues

Treasury I, Ch. 9.

Blueprints for Basic Tax Reform, U.S. Department of the Treasury, January 17, 1977.

D. Bradford, "The Possibilities for an Expenditure Tax," National Tax Journal, September, 1982.

Articles by Goode, Bradford, and Graetz in J. Pechman (ed.), What Should Be Taxed: Income or Expenditures?

Economists remain divided on the issue of taxing income or consumption. See the National Tax Association Symposium on "New Directions in Tax Policy," National Tax Journal, September, 1993, especially the articles by T. Barthold, C. McLure, and J. Sabelhaus for some of the current issues surrounding tax reform in Washington.

3. Integrating the Corporation and Personal Income Taxes

G. H. Hubbard, "Corporate Tax Integration: A View From the Treasury Department," Journal of Economic Perspectives, Winter 1993 (Not scintillating, but a good discussion of the issues related to integration along with some mention of the Treasury's 1992 proposals. Good sources).

4. Simplicity, Compliance Costs, and Tax Evasion

M. Blumenthal, J. Slemrod, "The Compliance Cost of the U.S. Individual Income Tax System: A Second Look," National Tax Journal, June 1992.

J. Slemrod, "Did the Tax Reform Act of 1986 Simplify Tax Matters?" Journal of Economic Perspectives, Winter 1992.

M. Pitt, J. Slemrod, "The Compliance Cost of Itemizing Deductions: Evidence from Individual Tax Returns," AER, December, 1989.

F. Cowell, "The Economic Analysis of Tax Evasion," Bulletin of Economic Research, September, 1985.

J. Alm, W. Beck, "Tax Amnesties and Compliance in the Long Run: A Time Series Analysis," National Tax Journal, March 1993.

J. Slemrod, "Fixing the Leak in Okun's Bucket. Optimal Tax Progressivity When Avoidance Can Be Controlled," Journal of Public Economics, September 1994.

E. Income Taxes and Economic Behavior

1. Taxation, labor supply, saving, and investment--overview

J. Slemrod, "Do Taxes Matter? Lessons From the 1980's," AEA Papers and Proceedings, May 1992.

B. Bosworth, G. Burtless, "Effects of tax Reform on Labor Supply, Investment, and Saving," Journal of Economic Perspectives, Winter 1992.

M. Feldstein, "The Effects of Marginal Tax Rates on Taxable Income," Journal of Political Economy, June 1995.

2. Taxation and labor supply

Textbook Coverage: R. Boadway, D. Wildasin, Public Sector Economics, Ch. 11, pp. 287-301.

Atkinson, Stiglitz, Ch. 2.

The Classic: J. Hausman, "Labor Supply," in H. Aaron, J. Pechman (eds.), How Taxes Affect Economic Behavior. (for an update, see J. Hausman, P. Rudd, "Family Labor Supply With Taxes, AEA Papers and Proceedings, May, 1984).

T. MaCurdy, "Work Disincentive Effects of Taxes: A Reexamination of Some Evidence," AEA Papers and Proceedings, May 1992.

3. Taxation and saving

Textbook Coverage: R. Boadway, D. Wildasin, Public Sector Economics, Ch. 11, pp. 301-314.

Atkinson, Stiglitz, Ch. 3.

For interesting analyses in the life-cycle tradition, see:

L. Kotlikoff, "Taxation and Savings: A Neoclassical Perspective," Journal of Economic Literature, December 1984.

A. Auerbach, L. Kotlikoff, "National Savings, Economic Welfare, and the Structure of Taxation," in M. Feldstein (ed.), Behavioral Simulation Methods in Tax Policy Analysis (and don't miss Stiglitz's nasty comments following).

A recent empirical study that emphasizes the interaction between the personal and corporate income taxes is

M. Feldstein, "The Effects of Tax-based Savings Incentives on Government Revenue and National Saving," Quarterly Journal of Economics, May 1995.

4. Taxation and investment

Textbook coverage: R. Roadway, D. Wildasin, Public Sector Economics, Ch. 11, pp. 321-337.

Atkinson, Stiglitz, Ch. 5.

a. Taxation and the cost of capital

A. Auerbach, "The Tax Reform Act of 1986 and the Cost of Capital," Journal of Economic Perspectives, Summer, 1987.

B. Bernheim, J. Shoven, "Taxation and the Cost of Capital: An International Comparison," in C. Walker, M. Bloomfield (eds.), The Consumption Tax.

b. Inflation, tax rules, and the cost of capital

Articles by Bradford, Hall, Hulten and Wycoff in C. Hulten (ed.), Depreciation, Inflation, and the Taxation of Income From Capital.

L. Rose, "A Respecified Tax-Adjusted Fisher Relation," Economic Inquiry, April, 1986 (Good review of the empirical literature).

I. Hansson and C. Stuart, "The Fisher Hypothesis and International Capital Markets," Journal of Political Economy, December, 1986.

c. What determines investment demand?

R. Chirinko, "Business Fixed Investment Spending," Journal of Economic Literature, December 1993. (An excellent survey covering what has been done and why, and offering an agenda for future research).

Also: M. Feldstein, "Inflation, Tax Rates, and Investment: Some Econometric Evidence," Econometrica, July, 1982.

T. Wisley, S. Johnson, "An Evaluation of Alternative Investment Hypotheses Using Non-Nested Tests," Southern Economic Journal, October, 1985.

B. Bernanke, et. al., "Alternative Non-nested Specification Tests of Time-series Investment Models," Journal of Econometrics, March 1988 (econometric reference only).

d. On measuring effective tax rates:

D. Fullerton, "Which Effective Tax Rate," National Tax Journal, March, 1984.

D. Bradford, C. Stuart, "Issues in the Measurement and Interpretation of Effective Tax Rates," National Tax Journal, September, 1986.

M. Daly, et. al., "The Sensitivity of Effective Marginal Tax Rate Calculations to Alternative Arbitrage Assumptions," Economic Letters, Vol. 21, No. 2, 1986.

5. The relationship of tax policy to long-run economic growth

B. Bosworth, Tax Incentives and Economic Growth, Ch. 2.

M. Boskin, "Tax Policy and Economic Growth: Lessons From the 1980's," Journal of Economic Perspectives, Fall, 1988.

M. Feldstein, "Tax Policy for the 1990's: Personal Saving, Business Investment, and Corporate Tax," AEA Papers and Proceedings, May, 1989.

6. Taxation and investment in human capital

P. Trostel, "The Effect of Taxation on Human Capital," Journal of Political Economy, April 1993.

M. Nerlove, et. al., Comprehensive Income Taxation, Investments in Physical and Human Capital, and Productivity," Journal of Public Economics, March 1993.

F. Transfer Payments

1. Universal vs. Means-tested Transfers

G. Burtless, "The Economist's Lament: Public Assistance in America," Journal of Economic Perspectives, Winter, 1990.

W. Vasey, "Recurring Themes in the Income Support Policy Debate: Obstacles to Change," (mimeo), also in P. Brown, C. Johnson, P. Vernier (eds.), Income Support: Conceptual and Policy Issues.

R. Haveman and J. Schloz, "Transfers, Taxes, and Welfare Reform," National Tax Journal, June, 1994.

A. Blinder, H. Rosen, "Notches," AER, September, 1985.

R. Moffitt, "A Problem with the Negative Income tax," Economic Letters, 17/3, 1985.

E. Browning, J. Browning, Public Finance and the Price System, 2nd edition (pp. 276-284)--(mimeo).

T. Besley, S. Coate, "Understanding Welfare Stigma: Taxpayer Resentment and Statistical Discrimination," Journal of Public Economics, July 1992.

2. Cash vs. In-kind Transfers

E. Browning, "Valuation of In-Kind Transfers and the Measurement of Poverty," Public Finance Quarterly, April, 1991.

C. Blackorby, D. Donaldson, "Cash versus Kind, Self-Selection, and Efficient Transfers," AER, September, 1988.

N. Bruce, M. Waldman, "Transfers in Kind: Can They Be Efficient and Non-Paternalistic?" AER, December 1991.

F. Gahvari, "In-Kind vs. Cash Transfers in the Presence of Distorting Taxes," Economic Inquiry, January 1995.

Also, for reference only:

B. DeBorger, "Estimating the Welfare Implications of In-Kind Government Programs: A General Numerical Approach," Journal of Public Economics, March, 1989.

3. Workfare

J. Geron, "Work and Welfare: Lessons on Employment Programs," Journal of Economic Perspectives, Winter, 1990.

T. Besley, S. Coate, "Workfare versus Welfare: Incentive Arguments for Work Requirements in Poverty Alleviation Programs," AER, March 1992. (They extended and generalized the analysis in T. Besley, S. Coate, "The Design of Income Maintenance Programs," Review of Economic Studies, April 1995. (Warning: very tough going--for reference only)

C. Colburn, "Work Requirements and Income Transfers," Public Finance Quarterly, April 1993.

4. The Earned Income Tax Credit

E. Browning, "Effects of the EITC on Income and Welfare," National Tax Journal, March 1995.

J. Scholz, "The EITC: Participation, Compliance, and Anti-Poverty Effectiveness," National Tax Journal, March 1994. (For reference: every conceivable detail that you might want to know about the EITC, and then some).

5. The Incentive Effects of the U.S. Welfare System on Labor Supply, Family Structure, and Other Issues

R. Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," Journal of Economic Literature, March 1992.

G. The Incidence of Taxes and Government Expenditures Under First-Best Assumptions

1. Tax Incidence

a. The Harberger model

Tresch, Ch. 17.

T. Hatta, J. Haltwanger, "A Decomposition of the Harberger Expression for Tax Incidence," Journal of Public Economics, December, 1982.

L. Ebrill, D. Hartman, "On the Incidence and Excess Burden of the Corporation Income tax," Public Finance, 1982(1).

M. Katz, H. Rosen, "Tax Analysis in an Oligopoly Model," Public Finance Quarterly, January 1985.

b. The sources and uses approach

J. Whalley, "Regression or Progression: the Taxing Question of Incidence," Canadian Journal of Economics, November 1984. (A "must read" on this issue)

J. Pechman, Who Paid the Taxes, 1966-85? (everyone cites this study, but see comments by E. Browning and Pechman's reply in AER, December 1986).

D. Fullerton, D. Rodgers, Who Bears the Lifetime Tax Burden?, Brookings, 1993.

J. Shoven, J. Whalley, "Applied General Equilibrium Models of Taxation and International Trade," Journal of Economic Literature, September 1984 (skip section 5).

J. Davies, F. St. Hilaire, J. Whalley, "Some Calculations of Lifetime Tax Incidence," AER, September, 1984.

J. Poterba, "Lifetime Incidence and the Distributional Burden of Excise Taxes," AEA Papers and Proceedings, May, 1989.

J. Gravelle, "Equity Effects of the Tax Reform Act of 1986," Journal of Economic Perspectives, Winter 1992.

c. Summary and overview

A. Atkinson, "The Distribution of the Tax Burden," in J. Quigley, E. Smolensky (eds.), Modern Public Finance.

2. Expenditure Incidence

Tresch, Ch. 18, pp. 419-422.

G. Brennan, "The Distributional Implications of Public Goods," Econometrica, March, 1976.

R. Musgrave, et. al., "The Distribution of Fiscal Burdens and Benefits," Public Finance Quarterly, 1974.

3. Incidence Measures in the Lorenz Tradition

D. Kiefer, "Distributional Tax Progressivity Indexes," National Tax Journal, December, 1984. Also, an empirical companion piece:

D. Kiefer, "A Comparative Analysis of Tax Progressivity in the United States: A Reexamination," plus "Comments" and "Reply," Public Finance Quarterly, January, 1991).

A. Atkinson, "Horizontal Equity and the Distribution of the Tax System," in H. Aaron, M. Boskin (eds.), The Economics of Taxation.

3 articles by Aronson and Lambert on measuring horizontal and vertical inequities: J. Aronson, P. Lambert, "Decomposing the Gini Coefficient to Reveal the Vertical, Horizontal, and Reranking Effects of Income Taxation," National Tax Journal, June 1994.

J. Aronson, et. al., "Redistributive Effect and Unequal Income Tax Treatment," Economic Journal, March 1994 (some nice diagrams early on indicating the nature of the problem).

P. Lambert, "Inequality Reduction Through the Income Tax," Economica, August, 1993 (a simple illustrative table of numbers presented here is useful).

H. Modelling State and Local Governments

1. Overview

R. Inman, "The Fiscal Performance of Local Governments: An Interpretative Review," in P. Mieszkowski and M Straszheim (eds.), Current Issues in Urban Economics.

2. Demand-Oriented Models With Government Utility Functions

E. Gramlich "State and Local Governments and Their Budget Constraints," International Economic Review, June, 1969 (Also Gramlich's series of studies for the Brookings Papers on Economic Activity, 1973:1, 1978:1; and 1982:2).

R. Ehrenberg, The Demand for State and Local Government Employees, especially Ch. 2.

S. Grosskopf and K. Hayes, "Do Local Governments Maximize Anything?," Public Finance Quarterly, April, 1983.

3. Models Incorporating Production (Other than the median voter model)

R. Tresch, "Explorations into the Production of State Government Services: Education, Welfare, and Hospitals," B.C. Working Paper #127, July, 1985.

J. Behrman and S. Craig, "The Distribution of Public Services: An Exploration of Local Government Preferences," AER, March, 1987.

S. Craig, "The Impact of Congestion on Local Public Good Production," Journal of Public Economics, April, 1987.

4. The Role of the Political Process--Voters and Bureaucrats

M. Lea, "Local Tax and Expenditure Capitalization: Evidence From the Market and Political Process," Public Finance Quarterly, January, 1982.

F. Sloan, "A Model of State Income Maintenance Decisions," Public Finance Quarterly, April, 1977.

J. Gist and R. Hill, "Political and Economic Influences on the Bureaucratic Allocation of Federal Funds: The Case of Urban Development Action Grants," Journal of Urban Economics, September, 1984.

I. The Empirical Analysis of Grants-in-Aid

1. Overview

E. Gramlich surveys the empirical literature in Ch. 12 of W. Oates (ed.), The Political Economy of Fiscal Federalism.

D. Rubinfeld, "The Economics of the Local Public Sector," Handbook, Vol. II, pp. 634-637.

2. The Flypaper Effect

R. Fisher, "Income and Grant Effects on Local Expenditures: The Flypaper Effect and Other Difficulties," Journal of Urban Economics, November, 1982.

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