

BOSTON COLLEGE
Department of Economics

EC 865.01
Spring 1998/99

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).

J. Stiglitz, "The Private Uses of Public Interests: Incentives and Institutions," Journal of Economic Perspectives, Spring 1998. (A great public sector economist reflects on the difficulties of making good public policies, from his perspective as a member of the Council of Economic Advisors.)

J. Slemrod, "On Voluntary Compliance, Voluntary Taxes, and Social Capital," National Tax Journal, September 1998 (Another excellent economist reflects on the public choice perspective.)

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. Rosefielde (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.

For reference only: A. Glazer and K. Konrad, "A Signaling Explanation for Charity," AER, September 1996.

For a cautionary note on modeling altruism, see: E. Ley, "Optimal Provision of Public Goods with Altruistic Individuals," Economic Letters, January 1997 (for reference only).

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

L. Kaplow, "On the Divergence Between "Ideal" and Conventional Income-Tax Treatment of Human Capital," AER, May 1996. (An interesting perspective on taxing labor income in the Haig-Simons tradition.)

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).
- K. Lee, "Uncertain Income and Redistribution in a Federal System," Journal of Public Economics, September 1998. (Excellent, and easily accessible, on the insurance function of redistributive transfers in the context of a federalist system, with and without mobility.)

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, Richard Arnott took you down some of Hammonds' preferred second-best roadways last 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.

Another good general reference on social welfare measurement is Section 3 of D. Slesnick, "Empirical Approaches to the Measurement of Welfare," Journal of Economic Literature, December 1998.

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. See, also, the related articles by Jorgenson and Triest in the Journal of Economic Perspectives, Winter 1998, pp. 79-114.

Note cautions to Jorgenson/Slesnick 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.

For empirical assessments of ongoing US anti-pollution efforts see:

R. Schmalensee, et. al., "An Interim Evaluation of Sulfur Dioxide Emissions Trading," Journal of Economic Perspectives, Summer 1998;

J. Henderson, "Effects of Air Quality Regulation," AER, September 1996; and

M. Kahn, "Particulate Pollution Trends in the United States," Regional Science and Urban Economics, February 1997.

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).

P. Joskow, et. al., "The Market for Sulfur Dioxide Emissions," AER, September 1998.

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.

T. Palfrey, J. Prisbrey, "Anomalous Behavior in Public Goods Experiments: How Much and Why," AER, December 1997.

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. Usher, "The Coase Theorem is Tautological, Incoherent, or Wrong," Economic Letters, October 1998.

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.

The most recent thinking on fundamental tax reform is discussed in the set of articles in "Applied Economics in Action: Discussing Fundamental Tax Reform," and "Prospects for Fundamental Tax Reform," AER, May 1997, pp. 114-155.

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.

J. Andreoni, "Tax Compliance", Journal of Economic Literature, June 1998 (A good overview of the issues and literature.)

An interesting article on evasion of indirect taxes, applicable to developing countries, is: J. McLaren, "Black Markets and Optimal Evadable Taxation," Economic Journal, May 1998.

E. Income Taxes and Economic Behavior

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

A. Auerbach, J. Slemrod, "The Economic Effects of the Tax Reform Act of 1986," Journal of Economic Literature, June 1997. (A discussion of TRA86 is perhaps dated, but the article offers a good overview of the issues in this section, along with a superb bibliography of the best related journal articles. And TRA86 was the biggest federal tax reform ever enacted.)

M. Feldstein, "The Effects of Marginal Tax Rates on Taxable Income," Journal of Political Economy, June 1995. (Worth a separate mention--very influential.)

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.

R. Blundell, et. al., "Estimating Labor Supply Responses Using Tax Reforms," Econometrica, July 1998 (For reference only: heavy going econometrics, applied to British data. They find smaller responses than is typical of US studies.)

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. (The OLG framework classic.)

Also, for reference: A. Auerbach, L. Kotlikoff, Dynamic Fiscal Policy, a monograph published in 1987 that applies their OLG model to all kinds of public expenditure and tax policies.

A more 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.

A. Imrohoroglu, et. al., "The Effect of Tax Favored Retirement Accounts on Capital Accumulation," AER, September 1998. (One of the latest in a large literature on IRA's and saving, with a good beginning summary of the results to date.)

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).

A. Goolsbee, "Investment Tax Incentives, Prices, and the Supply of Capital Goods," Quarterly Journal of Economics, February 1998 (Suggests that much of investment tax breaks are captured by capital goods suppliers in the form of higher prices, which he thinks explains the low investment response to tax policy.)

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.

See, also, the Auerback and Kotlikoff OLG model referenced above in E-3.

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.

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

J. Creedy, "Comparing Tax and Transfer Systems: Poverty, Inequality, and Target Efficiency," Economica, 1996 Supplement. (Tough analytics, but the approach is clear enough and the basic premise is interesting in comparing the two types of transfer schemes.)

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

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

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.

Three short articles on the deadweight loss from Christmas in the AER, December 1998, pp. 1350-1359.

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

Two good overview articles: D. Friedlander, et. al., "Evaluating Government Training Programs for the Economically Disadvantaged," Journal of Economic Literature, December 1997; and

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. Schloz, "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.

M. Keane, R. Moffit, "A Structural Model of Multiple Welfare Program Participation and Labor Supply," International Economic Review, August 1998. (For reference: Heavy econometrics, but considers the combined effect of the welfare programs on labor supply.)

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.

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