

PUBPOL 744 Fall 2018
Economics of the Public Sector

Instructor: Professor Betsey Stevenson, betseys@umich.edu

Office Hours: Professor Stevenson: Wednesdays 11:30-1:00 and by appointment

Class Meetings: Mondays & Wednesdays 4-5:30 1220 Weill

Course Description

This course examines major issues in economic policy. The aim of the course is to understand the reasons for government intervention in the economy, the extent of that intervention, and the ways in which people will likely respond given economic policy. We will consider both the economic policies that government might undertake that require revenue and the issues inherent in designing a tax system to collect revenue. We will analyze the successes, failures, and compromises inherent in government interventions in a variety of areas such as education, healthcare, social security, environmental, and tax policy. Throughout we will use both sound theory and empirical evidence to better understand the complex set of incentives that economic policies can create for individuals and businesses. For each issue, the goal will be to apply what you have learned in previous economics classes or through the required textbook to analyze current policy issues and learn to make well-reasoned, analytic arguments in favor, or against, particular policies.

Course Materials

For each class there will be assigned reading related to the required textbook as well as news and/or research articles.

Textbook: *Public Finance and Public Policy* (Worth), by Jonathan Gruber, 6th edition.
Additional readings will be available on the course website.

Grading

In-class policy exercise	25%
Policy Memo	25%
Class Participation	20%
Final exam	30%

In-class policy exercise: You will be divided into one of three groups, each with a different policy challenge. You will be asked to prepare a short memo outlining your proposed solution with a justification for your recommendation. The exercise will take place during the time period of class. You will have 90 minutes to answer the question and can use any resources you want during that time period. You will submit your assignment blinded and you will be given another groups assignment to critique over the coming week, one from the two topics you did not address. One week later you must submit your assessment of the memos of the other students. Your grade will ultimately depend on both your assignment and your assessment of the assignment of others.

Policy memo: Each of you will write a policy memo on a policy relevant topic chosen or assigned to you—the options are the policy questions associated with the class days. You must use the tools of the class to analyze the question. Your policy memo will include both the pros and the cons of the policy being considered and will make a recommendation. A draft of your memo will be due before the relevant

class in which we discuss the policy question. You then have a week to revise the memo to incorporate what you learn in class.

Class participation: Your participation is central to a good class. You must be prepared for discussion—that means having done the reading and thought about the points you may want to raise in class prior to coming to class. Demonstrating that you are unprepared will lead to low participation grades. In addition to being prepared, you are expected to be able to articulate your position in a respectful manner, recognizing that many people will have differing views. Moreover students are encouraged to “try on” arguments that may not fit them naturally. The classroom is a safe space for pursuing a line of reasoning that you may either start unconvinced by or cause yourself to become unconvinced.

Final exam: There will be a two-hour final exam. Thursday Dec. 19 at 1:30 pm.

Expectations:

Students are expected to come to class having done the readings and prepared to participate in class. Students should be respectful of each other at all times and follow the Ford school’s School academic expectations. Guidelines and expectations about academic integrity, accommodations for students with disabilities, student mental health and wellbeing, inclusivity, attendance, communication, and technology use should be read here:

<http://fordschool.umich.edu/academics/expectations>

ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES

If you believe you need an accommodation for a disability, the University's Services for Students with Disabilities office (SSD) can be a valuable resource with which to start. In addition, if you believe you need an accommodation for a disability in any of your courses, please let the course instructor know at your earliest convenience. You need to allow sufficient time for your faculty member to respond, minimally 7 days, preferably more, in advance of when the accommodation is needed. Some aspects of courses may be modified to facilitate your participation and progress. As soon as you make your instructor aware of your needs, they can work with Student & Academic Services and/or the SSD office to help determine appropriate academic accommodations. Any information you provide will be treated as private and confidential.

STUDENT MENTAL HEALTH AND WELLBEING

The University of Michigan is committed to advancing the mental health and wellbeing of its students. We acknowledge that a variety of issues, such as strained relationships, increased anxiety, alcohol/drug problems, and depression, directly impacts students’ academic performance. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. For help, contact Counseling and Psychological Services (CAPS) and/or University Health Service (UHS). For a listing of other mental health resources available on and off campus, visit: <http://umich.edu/~mhealth/>.

INCLUSIVITY STATEMENT

Members of the Ford School community represent a rich variety of backgrounds and perspectives. We are committed to providing an atmosphere for learning that respects diversity. While working together to build this community we ask all members to:

- share their unique experiences, values and beliefs
- be open to the views of others

- honor the uniqueness of their colleagues
- appreciate the opportunity that we have to learn from each other in this community
- value one another's opinions and communicate in a respectful manner
- keep confidential discussions that the community has of a personal (or professional) nature
- use this opportunity together to discuss ways in which we can create an inclusive environment in Ford classes and across the UM community

COMMUNICATING WITH YOUR INSTRUCTOR

In addition to interactions in the classroom, Ford School Instructors are also available to meet with students during office hours. If you cannot meet your instructor during that time, you should email them with your questions or to request another time to meet. But please understand that instructors have other obligations, including scholarship and administrative duties, and so they may not be able to respond to your email as promptly as you would like.

ATTENDANCE AND ASSIGNMENTS

Attendance: Because Ford School classes depend heavily upon participation, we expect students to make every effort to attend all class sessions. Advance notification of an unavoidable absence is recommended; repeated absences will typically negatively affect your grade.

Assignments: Extensions, if the instructor chooses to grant them, require prior arrangement. Late assignments, if they are accepted, will typically lose points for each day, or fraction thereof, that they are late.

USE OF TECHNOLOGY

Students should follow instructions from their instructor as to acceptable use of technology in the classroom. Some instructors may have an outright ban on devices while others may allow them to be used. If technology is allowed it should not negatively affect the learning environment in the classroom, examples include sound interruptions, photography and recording. The posting of classroom materials (including slides, assignments, readings and handouts) or photographs of classmates or your instructor to third-party sites (e.g. social media) requires informed consent. Likewise, recording (audio or video) your classes or office hour sessions is only allowed with the express written permission of your instructor. However, instructors are encouraged to grant such permission when there are circumstances where such taping is necessary as a reasonable accommodation of properly documented student disability. When permission for recording is granted, instructors are responsible for informing students in the class who may appear (or be heard) in any recording. Distribution of any of these recordings outside of your class or posting to 3rd person websites, even if your instructor allows you to record them for your personal use, will be considered academic misconduct.

Course Topics and Readings

Sept. 4) Why Study Public Economics?

- Gruber, Chapter 1

Policy question: What should the role of government be? How much government interference is desirable in a market-based economy?

- Jacob Hacker and Paul Pierson. 2016. "[Making American Great Again: The Case of the Mixed Economy](#)" *Foreign Affairs*, June.

- N. Gregory Mankiw. 2015. “[‘The Conservative Heart’ How to Build a Fairer, Happier, and More Prosperous America by Author Brooks](#)”, *NYT Sunday Book Review*, August 2.

Sept. 9) Fiscal Policy and the Tools of Budget Analysis

- Gruber, Chapter 4
- Stevenson and Wolfers, *Principles of Macroeconomics* Chapter 33

Policy Question: How Should We Prioritize Spending Across Generations?

- Center on Budget and Policy Priorities. 2017. “[Introduction to the Federal Budget Process.](#)”
- Center on Budget and Policy Priorities. 2017. “[Where Do Our Federal Tax Dollars Go?](#)”

Sept. 11) Taxation in the U.S. and around the World

- Gruber Chapter 18

Policy question: Does the U.S. raise enough revenue?

- Democracy December 8, 2017. “Tax Reform Must Raise More Revenue” <https://democracyjournal.org/arguments/tax-reform-must-raise-more-revenue/>”
- New York Times, January 11, 2019 [It’s Official: The Trump Tax Cuts Didn’t Pay for Themselves in Year One](#)

Sept. 16) The Equity Implications of Taxation: tax incidence

- Gruber Chapter 19

Policy question: Is the US Tax System Progressive Enough?

- Tax Policy Center. “[How Should Progressivity Be Measured](#)”
- Thomas Piketty and Emmanuel Saez. 2007. “[How Progressive is the U.S. Federal Tax System? A Historical and International Perspective](#)” *Journal of Economic Perspectives*, 21(1): 3–24
- The Economists 2017. [American taxes are unusually progressive. Government Spending is Not.](#) November 23.
- Michael Greenstone and Adam Looney. 2012. “[Just How Progressive is the U.S. Tax Code?](#)” *Brookings UpFront*, April 13.
- Penn Wharton Budget Model [The Tax Cuts and Jobs Act: Static Distributional Analysis](#)

Sept. 18) Fiscal Policy and the Tools of Budget Analysis continued

Fix the Debt event

Policy question: Can you meet your priorities and balance the budget?

- Brookings. 2018. “[The Fiscal Ship.](#)”
- Maya MacGuineas, CNN, “[National debt is about to roar back to life as a pressing issue](#)
- [Wall Street Journal August 1, 2018 “Treasury Plans to Boost Borrowing as Trillion-Dollar Deficits Loom”](#)

Sept. 23) Inequality

- Gruber, Chapter 17, pp. 511-520

- Center on Budget and Policy Priorities. 2018. “[A Guide to Statistics on Historical Trends in Income Inequality](#)”

Policy question: Should policy makers do more to address income inequality?

- Earth 2.0: Is Income Inequality Inevitable? Listen to the podcast: <http://freakonomics.com/podcast/earth-2-0-income-inequality/> Freakonomics radio, April 19, 2017
- Rakesh Kochhar and Anthony Cilluffo 2018 [Key Findings on the rise in income inequality within American’s racial and ethnic groups](#), July 12.
- Dylan Mathews: 2017. [You're not imagining it: the rich really are hoarding economic growth](#) August 8.
- Tyler Cowen. 2016. “[Is the Concept of Inequality the Best Way of Thinking About Our Economic Problems?](#)” in *The US Labor Market* ed. Michael R. Strain, pp 248-263.

Sept. 25) Tax Inefficiencies and their implications for optimal taxation

- Gruber Chapter 20

Policy question: What are the true costs of taxation and how can policy makers minimize it?

- Tim Harford, “[The window tax — an open and shut case.](#)” *Financial Times*, Dec. 4, 2015.
- Christopher Shea. 2007. “[The Height Tax](#)” *New York Times Magazine* Dec. 9.

Sept. 30) Externalities

- Gruber, Chapters 5
- Adam Davidson. 2012. “[Should We Tax People for Being Annoying](#)” *New York Times*. January 8.

Policy question: Should we tax soda, sugar, and other unhealthy foods?

- Margot Sanger-Katz. 2016. “[More Evidence That Soda Taxes Cut Soda Drinking](#)” *New York Times*, August 25.
- Anahad O’Connor and Margot Sanger-Katz. 2018. “[California, of All Places, Has Banned Soda Taxes. How a New Industry Strategy Is Succeeding](#)” *New York Times*, June 27
- Editorial Board, 2018. [California’s Ban on Soda Taxes Should Not Stand, And public-health advocates have a smart plan to fight it.](#) *Bloomberg* June 23.
- Katherine Loughead 2018 [Soda Taxes Are Not a Sensible Solution to Combat Obesity](#) Tax Foundation, May 17.
- Optional: Katherine Loughead 2018 [Sales Taxes on Soda, Candy, and Other Groceries, 2018](#), Tax Foundation, June 11.

Oct. 2) Environmental externalities.

- Gruber, Chapter 6
- Roya Sabri. 2016. “[Will regulating airline emissions help curb global greenhouse gas emissions?](#)” *Christian Science Monitor*, July 25.
- Pew Research Center. 2015. “[Global Concern about Climate Change, Broad Support for Limiting Emissions](#)” November 5
- “[Climate change and inequality](#)” *The Economist* July 13, 2017

Policy question: Should we have a carbon tax?

- N. Gregory Mankiw. 2015. "[Shifting the Tax Burden to Cut Carbon](#)" *New York Times*, September 6.
- David Roberts 2018 [The 5 most important questions about carbon taxes, answered](#) Vox July 23.
- World Bank. 2018 "[Carbon pricing Dashboard](#)"

Oct. 7) Public Goods

- Gruber, Chapter 7

Policy question: Does public trust in government matter?

- Gallup. 2016. "[Confidence in Institutions.](#)"
- Robert Putnam. 1995. "[Bowling Alone: An Interview with Robert Putnam](#)" *Journal of Democracy*, 6(1).
- Lawrence H. Summers. 2016. "[Why Americans Don't Trust Government.](#)" *Washington Post*, May 26.
- Betsey Stevenson. 2016. "[Want to Help the Economy? Learn to Trust](#)" *Bloomberg View*
- Optional: Josh Morgan 2014 "[The Decline of Trust in the United States](#)" Medium
- Optional: Scott Stossel. 2008. "[Subdivided We Fall.](#)" *New York Times Sunday Book Review*, May 18.

Oct. 9) Cost-Benefit Analysis

- Gruber, Chapter 9

Policy question: How should we appropriately assign a value to human life?

- Pascoe, Michael. 2017 "[What is saving an Australian life worth](#)" *Sydney Morning Herald*, January 9.
- Christopher Ingraham. 2017. "[How much would you pay to live pain-free?](#)" *The Washington Post* August 7.
- Jo Craven McGinty. 2016. "[Why the Government Puts a Dollar Value on Life.](#)" *Wall Street Journal*, March 25.
- Optional: W. Kip Viscusi and Joseph E. Aldy. 2003. "[The Value of a Statistical Life: A Critical Review of Market Estimates Throughout the World.](#)" NBER Working Paper 9487.
- Optional: [Department of Transportation Guidance on the Treatment of the Economic Value of a Statistical Life.](#) August 8, 2016.

Oct. 14) Fall Break

Oct. 16) Quantitative Methods: Introduction

- Gruber, Chapter 3
- Betsey Stevenson. 2010. "[Beyond the Classroom: Using Title IX to Measure the Return to High School Sports](#)", *Review of Economics and Statistics*, 92(2): 284-301.
- Optional: Bruce D. Meyer. 1995. "[Natural and Quasi-Experiments in Economics](#)", *Journal of Business & Economic Statistics*, 13(2): 151-161.
- Optional: David Freedman. 1999. "From Association to Causation: Some Remarks on the History of [Statistics](#)" *Statistical Science*, 14(3): 243-258.

Policy question: What are the limits of empirical research? How should it be used?

- Justin Wolfers and Betsey Stevenson. 2013. "[Six Ways to Separate Lies From Statistics](#)," *Bloomberg*, May 1.
- Optional: Joshua D. Angrist and Jörn-Steffen Pischke. 2010. "[The Credibility Revolution in Empirical Economics: How Better Research Design is Taking the Con out of Econometrics](#)" *Journal of Economic Perspectives*, 24(2):3-30
- Optional: Christopher Sims. 2010. "[But Economics Is Not an Experimental Science](#)" *Journal of Economic Perspectives*, 24(2): 59-68
- Optional: Noah Smith. 2016. "[Data Geeks are Taking over Economics.](#)" *Bloomberg View*, Aug 25.

Oct. 21) In-class policy exercise

Oct. 23) Social Insurance

- Gruber, Chapter 12

Policy question: Should the U.S. have more social insurance?

- Jacob Hacker. 2006. "[The Privatization of Risk and the Growing Economic Insecurity of Americans](#)," *Privatization of Risk*.
- Julie Turkewitz and Juliet Linderman. 2012. "[The Disability Trap](#)" *The New York Times*, 2012
- Tyler Cowen. 2016. "[Clinton Economist Trusts Government Too Much](#)," *Bloomberg View*, August 29.

Oct. 28) Social Security

- Gruber, Chapter 13

In-class exercise: Social Security Reformer <http://www.crfb.org/socialsecurityreformer/>

Policy question: How should social security be reformed?

- Committee for a Responsible Federal Budget 2017 [How Old Will You Be When Social Security's Funds Run Out?](#) July 13
- Ron Lieber, "[We Have a Retirement Savings Problem. Politicians Can Help.](#)" *NYTimes*, Nov. 11, 2016.
- Mark Miller 2017 "[U.S. Social Security reform: the clock is ticking](#)" Reuters April 20.
- Optional: Peter Diamond and Peter Orszag. 2005 "[Saving Social Security](#)", *Journal of Economic Perspectives*. 19(2): 11-32.
- Optional: AARP. 2015. "[Social Security for the 21st Century: 12 Proposals You Should Know About.](#)"
- Optional: Bipartisan Policy Center. 2016. "[Securing our Financial Future.](#)"
- Optional: House of Representatives Budget Committee. 2015. "[Path to Prosperity](#)" *just read pp. 65-67.*
- Optional: Peter Orzag. 2010. "[Safer Social Security.](#)" *New York Times*, November 11.

Oct. 30) Individual taxes: Taxation and Labor Supply

- Gruber, Chapter 21

Policy question: Should taxes be more progressive?

- N. Gregory Mankiw, [“I Can Afford Higher Taxes. But They’ll Make Me Work Less.”](#), NYTimes, Oct. 9, 2010.

Nov. 4) Welfare, basic income guarantees, earned income tax credits

- Gruber, Chapter 17, 520-545

Policy question: Should we adopt a basic income guarantee?

- Stephen J. Dubner. 2016. [“Is the World Ready for a Guaranteed Basic Income?”](#) Freakonomics radio. April 13 (Listen to the podcast)
- Andrew Flowers. 2016. [“What Would Happen if We Just Gave People Money?”](#) *Five-Thirty-Eight*, April 25.
- John Thornhill and Ralph Atkins. 2016. [“Universal Basic Income: Money for Nothing.”](#) *Financial Times*, May 26.
- IGM Experts Panel. 2016. [“Universal Basic Income.”](#) June 28.
- Planet Money Episode 796: The Basic Income Experiment
<https://itunes.apple.com/us/podcast/planet-money/id290783428?mt=2&i=1000392603491>

Nov. 6) Helping People When Bad Things Happen: Unemployment Insurance

- Gruber, Chapter, 14
- Edward Glaeser, 2012. [“2013 is the Year to Go to Work, Not Go on Disability”](#) *New York Times*, December 26.
- Center on Budget and Policy Priorities. 2014. [“Introduction to Unemployment Insurance.”](#)

Policy question: How should we reform disability insurance?

- William Morton. 2013. [“SSDI Reform: An Overview of Proposals to Reduce the Growth in SSDI Rolls.”](#) Congressional Research Service, April 29.
- Harold Pollack. 2015. [“Saving SSDI.”](#) *The Atlantic*, August 31.
- Jeffrey Liebman and Jack A. Smalligan. 2013. [“An Evidence-Based Path to Disability Reform.”](#) Brookings.
- David Autor and Mark Duggan. 2010. [“Supporting Work: A Proposal for Modernizing the US Disability System.”](#) Hamilton Project.
- [McCrery-Pomeroy SSDI Solutions Initiative.](#)
- Richard Burkhauser and Mary C. Daly. [“Making Work a Priority for Working-Age People with Disabilities”](#) in *The US Labor Market* ed. Michael R. Strain, pp 204-220.

Nov. 11) Helping People When Bad Things Happen: Worker’s Compensation, and Disability Insurance

Policy question: How should we reform unemployment insurance?

- Jeffrey Zients and Jason Furman. 2016. [“New Reforms to Strengthen Support for Unemployed Workers.”](#) White House, January 16.
- Center for American Progress. 2014. [“Strengthening Unemployment Protections in America”](#)
- Casey Mulligan. 2012. [“Weighing the Benefits and Costs of Unemployment Insurance.”](#) *New York Times*, February 15.

Nov. 13) Health Insurance

- Gruber, Chapters 15

Policy question: Should the government be involved in health insurance?

- NBER Digest. 2007. "[Public Insurance Expansions Crowd Out Private Health Insurance](#)," April.
- Robert Blendon and John Bensen 2001. "[Americans' Views On Health Policy: A Fifty-Year Historical Perspective](#)" Health Affairs
- James Morone 2010. [Presidents And Health Reform: From Franklin D. Roosevelt To Barack Obama](#). Health Affairs
- Alex Blemberg 2009. [Accidents Of History Created U.S. Health System](#) NPR All Things Considered. October 22.
- Optional: Barack Obama 2016. "[United States Health Care Reform: Progress to Date and Next Steps](#)" Journal of the American Medical Association.
- Optional: Lanhee J. Chen. 2017. "[One more good reason to repeal ObamaCare. Now](#)" Fox News Opinion March 23

Nov. 18) Health Insurance

- Gruber, Chapters 16
- Jonathan Gruber. 2006. "[The Massachusetts Health Care Revolution: A Local Start for Universal Coverage](#)," *Hastings Center Report* 36(5): 14-19.
- Peter Orszag. 2012. "[Smart Ways to Keep the Brake on Health-Care Costs](#)" *Bloomberg View*, Aug 1.

Policy question: Should the rich be able to buy better healthcare?

- "[I think health care is a right. I asked an expert to tell me why I'm wrong.](#)" Vox June 30, 2017.
- *Alvin Powell* 2016. "[The Costs of Inequality: More Money Equals Better Health Care and Longer Life](#)" *US News and World Report* Feb. 23
- Robert Doherty 2015. "[Assessing the Patient Care Implications of "Concierge" and Other Direct Patient Contracting Practices: A Policy Position Paper From the American College of Physicians](#)" *Annals of Internal Medicine*. December 15.

Nov. 20) How and Why Should the Government Be Involved in Education and Childcare?

- Gruber, Chapter 11

Policy question: How many years of education should the government provide and what age should it start?

- Claire Lundberg. 2014. "[The Autonomous 3-Year-Old.](#)" *Slate*.
- Betsey Stevenson. 2015. "[Why Access to Free Community College Matters.](#)" *White House blog*.
- Matt Bruenig. 2015. "[The Case Against Free College.](#)" *New Republic*.
- Alia Wong. 2014. "[The Case Against Universal Preschool.](#)" *The Atlantic*, November 18.
- Optional: Sue Shellenbarger. 2010. "[Should the Government Help Provide Child Care?](#)" *Wall Street Journal*, January 5.
- Optional: Amy Jordon. 2014. "[5 reasons why Congress should fund educational children's television](#)" *The Hill*, August 7.
- Optional: Susan Dynarski. 2016. "[Why Talented Black and Hispanic Students Can Go Undiscovered](#)" *New York Times*, April 8.

Nov. 25) Competition across school districts.

- Gruber, Chapter 10

Policy question: What's the right level for education policy?

- Caroline Hoxby. 1996. "[Are Efficiency and Equity in School Finance Substitutes or Complements](#)" *Journal of Economic Perspectives*, 10(4): 51-72
- Caroline Hoxby. 1998. "[What Do America's 'Traditional' Forms of School Choice Teach Us about School Choice Reforms?](#)" FRBNY Economic Policy Review, March.
- Alana Semuels. 2016. "[Good School, Rich School; Bad School, Poor School](#)" *The Atlantic*, August 25.

Nov. 27: No Class Thanksgiving break

Dec. 2) Tax Expenditures

- Tax Foundation. 2013. "[A Brief History of Tax Expenditures](#)"
- Tax Policy Center "[The Tax Policy Briefing Book: Tax Expenditures](#)" (read the four questions and answers)
- Center on Budget and Policy Priorities. 2016. "[Policy Basics: Federal Tax Expenditures](#)".

Policy question: Should the U.S. eliminate the mortgage interest deduction?

- Betsey Stevenson and Justin Wolfers. 2012. "[Tax System is American's Biggest Spender](#)" *Bloomberg View*, April 16.
- Richard Rubin. 2016. "[Why It's So Hard to Get Rid of Tax 'Loopholes'](#)" *Wall Street Journal*, August 18.
- David Meni and Ezra Levin. 2016. "[The biggest beneficiaries of housing subsidies? The wealthy.](#)" *Greater Greater Washington*.
- Optional: GAO. 2016. "[Report to Congress: Tax Expenditures](#)," July.

Dec 4) Corporate Taxation

- Gruber, Chapter 24
- Tax Policy Center: "[How does the corporate income tax work?](#)"
- Tax Policy Center: "[What are flow-through enterprises and how are they taxed?](#)"

Policy Question: Should we raise less revenue from corporate taxes?

- Jason Furman and Betsey Stevenson. 2016. "[Business Tax Reform and the Labor Market](#)" in *The US Labor Market* ed. Michael R. Strain, pp 187-182.
- Jim Tankersley 2018 "[Tax Havens Blunt Impact of Corporate Tax Cut, Economists Say](#)" *New York Times*, November 11
- Justin Wolfers 2018 "[How to Think About Corporate Tax Cuts](#)" *New York Times*, March 30
- KelloggInsight 2018 "[Does Lowering the Corporate Tax Rate Spur Economic Growth](#)" Based on the research of Nir Jaimovich and Sergio Rebelo Mar 5.

Dec 9) Synthesis