

**Fall 2024**

**ECONOMICS 1410 / SUP-125**

**Public Economics: Designing Government Policy**

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**Office:** Littauer 125, office hours by appointment

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**Course Description:** This course analyzes what role the government plays and should play in a market economy. It covers topics such as tax policy, health care policy, retirement policy, environmental protection, and state and local policy. The course emphasizes recent empirical research on policy issues and teaches students how to conduct such studies. Much of the material we will cover relates directly to ongoing policy debates.

After an introduction to some of the key theoretical concepts and empirical methods in public economics, we will consider how the public sector in the United States (and in advanced, democratic economies more generally) is organized. We will look at how it raises revenue; what it allocates resources to; and how it uses regulations to shape economic activity.

We conclude by analyzing how to deploy these policy instruments—taxation, spending, and regulation—in three specific areas: climate policy, trade policy, and income redistribution.

**Prerequisites:** Familiarity with intermediate microeconomics, multivariate calculus, and econometrics (at the level of economics 1123 or 1126) is strongly recommended.

**Course Mechanics:**

- 1) Lectures – Two lectures per week, MW 3:00 to 4:15 in Emerson 101.
- 2) Sections – Wednesday 12:00 to 1:15 and Friday 10:30 to 11:45.
- 3) Readings – Jonathan Gruber, *Public Finance and Public Policy*, is the recommended textbook. Digitized copies of an earlier edition will be posted to Canvas. Other readings are listed below.
- 4) Assignments will be posted on the course website, which should be checked regularly: <https://canvas.harvard.edu/courses/140024>

**Grading:** Grades will be based on class participation (20 percent), three assignments (30 percent), a midterm exam (20 percent), and a final exam (30 percent). Class participation will in part be based on your participation in the mini-debates (see below). Because you will have two-three weeks to complete each assignment and to allow the solutions to be posted quickly on the course webpage, late assignments will not be accepted.

**Term Paper Option:** Students may write a term paper that contains original research on a topic in public economics. The term paper satisfies the Economics Department's writing requirement for economics concentrators. Please contact Prof. Veuger as soon as possible if you are

interested in this option to discuss your ideas. Students writing a term paper will not have to complete the assignments. Instead, the term paper will count for 30 percent of the grade.

Term paper proposals are due on 10/5. Proposals should be about 5 pages in length, explaining the i) motivation; ii) question asked; iii) related literature; iv) empirical strategy or theoretical model; v) data to be used (if any); vi) results expected or hoped for. The complete paper is due on December 4.

**Mini-Debates:** Most lectures will feature a short in-class debate between two of you, where you will be asked to defend or attack a statement related to the course material. The debates will feature five minutes of opening debates from each side, followed by five minutes of questions. The class will vote both before and after the debate on whether the statement is true.

**Academic Accommodations:** [Language supplied by DAO.] Harvard University values inclusive excellence and providing equal educational opportunities for all students. Our goal is to remove barriers for disabled students related to inaccessible elements of instruction or design in this course. If reasonable accommodations are necessary to provide access, please contact the Disability Access Office (DAO). Accommodations do not alter fundamental requirements of the course and are not retroactive. Students should request accommodations as early as possible, since they may take time to implement. Students should notify DAO at any time during the semester if adjustments to their communicated accommodation plan are needed.

**Collaboration:** Discussion and the exchange of ideas are essential to academic work. On problem sets, you may consult with your classmates and the teaching staff. However, you must write up your own solutions in your own words based on your own understanding.

You are encouraged to consult with your classmates on the choice of paper topics and to share sources. However, you should ensure that any written work you submit for evaluation is the result of your own research and writing and that it reflects your own approach to the topic.

You must also adhere to standard citation practices and properly cite any books, articles, websites, lectures, etc. that have helped you with your work. If you receive any help with your writing (e.g., feedback on drafts, ChatGPT), please acknowledge this assistance.

No collaboration of any kind is allowed during the exams.

**Textbook:** You do not need to buy the book. We have posted digitized versions of an older edition in 4 separate PDFs in Canvas. You can find everything you need for the lectures there and the chapter numbers below refer to these files. If you wish to buy the book nevertheless, you are welcome to buy any edition of the textbook. The textbook provides important background material, but the lectures provide more advanced and up-to-date material. Therefore, attending class is critical.

**Other readings:** Academic journal articles listed on the reading list below will be distributed electronically for your convenience. Practically all articles should also be available to Harvard College students for free by searching for the title in Google Scholar or as working papers through the National Bureau of Economic Research website.

Some of the readings on the reading list are marked [classic] and are purely optional, for those of you interested in the history of economic thought.

**Pass/fail option:** Students may enroll in the course on a Pass/Fail basis with permission of the instructor. The final date for students to change the letter-graded or pass/fail status of a course is the 11th Monday.

**Cross-registration:** The course is open to students from other Harvard schools and from MIT.

**Attendance:** Students who are enrolled in the course for credit are responsible for all material covered and any course announcements made in lecture and section. You should only enroll in the class for credit if you can attend class regularly.

**Exams:** The midterm exam will be held in class on October 16. You should only enroll in the class for credit if you can be in attendance to take the midterm on this date. The date, time, and location of the final exam will be set by the registrar's office.

## LECTURES

1. Wednesday, September 4	Introduction to Public Economics
2. Monday, September 9	Theoretical Tools for Public Economics
3. Wednesday, September 11	Empirical Tools for Public Economics
4. Monday, September 16	Politics and Policy [PS 1 Assigned]
5. Wednesday, September 18	Federal Budget
6. Monday, September 23	Tax Incidence
7. Wednesday, September 25	Dead-Weight Loss of Taxation
8. Monday, September 30	Externalities and Public Goods
9. Wednesday, October 2	Fiscal Federalism -- Concepts
Friday, October 4	[PS 1 Due]
10. Monday, October 7	Fiscal Federalism -- Empirics
Wednesday, October 9	Midterm Recap
<i>Monday, October 14</i>	<i>No Class: Columbus Day/Indigenous People's Day</i>
Wednesday, October 16	Midterm Exam
11. Monday, October 21	Individual Income Taxation
12. Wednesday, October 23	Business Taxation
13. Monday, October 28	Tax Reform [PS 2 Assigned]
14. Wednesday, October 30	Social Insurance
15. Monday, November 4	Health Care
16. Wednesday, November 6	Pensions
Friday, November 8	[PS 2 Due]
<i>Monday, November 11</i>	<i>No Class: Veterans Day</i>
17. Wednesday, November 13	Regulation [PS 3 Assigned]
18. Monday, November 18	Regulation of Land Use
19. Wednesday, November 20	Regulation of Immigration
20. Monday, November 25	Choice of Instrument: Climate Policy
<i>Wednesday, November 27</i>	<i>No Class: Thanksgiving</i>
21. Monday, December 2	Choice of Instrument: Trade Policy [PS 3 Due]
22. Wednesday, December 4	Choice of Instrument: Redistribution

## READINGS

### *Wednesday, September 4: Introduction*

Gruber, Sections 1.1, 1.2, 18.1, 18.2, and 18.3

### *Monday, September 9: Theoretical Tools for Public Economics*

Gruber, Chapter 2

### *Wednesday, September 11: Empirical Tools for Public Economics*

Gruber, Chapter 3

Athey, Susan, and Guido W. Imbens (2017) "The State of Applied Econometrics: Causality and Policy Evaluation," *Journal of Economic Perspectives* 31(2): 3-32. [skip 22-27 if you wish]

### *Monday, September 16: Politics and Policy*

Gruber, Chapter 9

Clemens, Jeffrey, and Stan Veuger (2021) "Politics and the Distribution of Federal Funds: Evidence from Federal Legislation in Response to COVID-19," *Journal of Public Economics* 204: 104554.

Madestam, Andreas, Daniel Shoag, Stan Veuger, and David Yanagizawa-Drott (2013) "Do Political Protests Matter? Evidence from the Tea Party Movement," *Quarterly Journal of Economics* 128(4): 1633-1685.

Downs, Anthony (1957). "An Economic Theory of Political Action in a Democracy," *Journal of Political Economy* 65(2): 135–150. [classic]

### *Wednesday, September 18: The Federal Budget*

Gruber, Chapter 4

Capretta, James C. (2018) "The Congressional Budget Process: A Brief Primer," *AEI Economic Perspectives* 2018-02.

Congressional Budget Office (2024) *The Long-Term Budget Outlook: 2024 to 2054*. March.

### *Monday, September 23: Tax Incidence*

Gruber, Chapter 19

Doyle, Joseph J., and Krislert Samphantharak (2008) "\$2.00 Gas! Studying the Effects of a Gas Tax Moratorium," *Journal of Public Economics* 92(3-4): 869-884.

### *Wednesday, September 25: Deadweight Loss of Taxation*

Gruber, Sections 20.1, 20.2, 20.3, 21.1, and 21.2

Ramsey, Frank P. (1927) "A Contribution to the Theory of Taxation," *Economic Journal* 37(145): 47–61. [classic]

Feldstein, Martin (1995) "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act," *Journal of Political Economy* 103(3): 551-72. [classic]

Feldstein, Martin (1999) "Tax Avoidance and the Deadweight Loss of the Income Tax," *Review of Economics and Statistics* 81(4): 674–680. [classic]

*Monday, September 30: Externalities and Public Goods*

Gruber, Chapters 5 and 7

Coase, Ronald H. (1960) "The Problem of Social Cost," *Journal of Law and Economics* 3(1): 1–44. [classic]

Samuelson, Paul A. (1954) "The Pure Theory of Public Expenditure," *Review of Economics and Statistics* 36(4): 387–389. [classic]

*Wednesday, October 2: Fiscal Federalism -- Concepts*

Gruber, Chapter 10

Clemens, Jeffrey, and Stan Veuger (Forthcoming) "Intergovernmental Grants and Policy Competition: Concepts, Institutions, and Evidence," in Agrawal, David, James Poterba, and Owen Zidar (ed.) *Policy Responses to Tax Competition*. Chicago: University of Chicago Press. [skip 27-30] if you wish]

Musgrave, Richard A. (1971) "Economics of Fiscal Federalism," *Nebraska Journal of Economics and Business* 10(4): 3–13. [classic]

Tiebout, Charles (1956) "A Pure Theory of Local Expenditures," *Journal of Political Economy* 64(5): 416–424. [classic]

*Monday, October 7: Fiscal Federalism -- Empirics*

Gruber, Chapter 11

Shoag, Daniel, and Stan Veuger (2018) "Shops and the City: Evidence on Local Externalities and Local Government Policy from Big-Box Bankruptcies," *Review of Economics and Statistics* 100(3): 440–453.

*Monday, October 21: Individual Income Taxation*

Gruber, Chapter 18

Bakija, Jon (2024) "The US Individual Income Tax: Recent Evolution and Evidence," *Journal of Economic Perspectives* 38 (3): 33–60.

*Wednesday, October 23: Business Taxation*

Gruber, Chapters 24 and 25

Chodorow-Reich, Gabriel, Owen M. Zidar, and Eric Zwick (2024) "Lessons from the Biggest Business Tax Cut in US History," *Journal of Economic Perspectives* 38(3): 61–88.

*Monday, October 28: Tax Reform*

Gale, William G., Jeffrey L. Hoopes, and Kyle Pomerleau (2024) "Sweeping Changes and an Uncertain Legacy: The Tax Cuts and Jobs Act of 2017," *Journal of Economic Perspectives* 38 (3): 3–32.

*Wednesday, October 30: Social Insurance*

Gruber, Chapters 12 and 15, and Section 20.4

Clemens, Jeffrey, and Joshua Gottlieb (2014) "Do Physicians' Financial Incentives Affect Treatment Patterns and Patient Health?" *American Economic Review* 104(4): 1320-1349.  
Summers, Lawrence H. (1989) "Some Simple Economics of Mandated Benefits," *American Economic Review* 79(2): 177-183. [classic]

*Monday, November 4: Health Care*

Gruber, Chapter 16

Clemens, Jeffrey, and Joshua Gottlieb (2017) "In the Shadow of a Giant: Medicare's Influence on Private Payment Systems," *Journal of Political Economy* 125(1): 1-39.

*Wednesday, November 6: Pensions*

Gruber, Chapters 13 and 22

Feldstein, Martin (2005) "Structural Reform of Social Security," *Journal of Economic Perspectives* 19 (2): 33-55.

*Wednesday, November 13: Regulation*

Gruber, Chapter 8

Sunstein, Cass R. (2024) "The Economic Constitution of the United States," *Journal of Economic Perspectives* 38(2): 25-42.

*Monday, November 18: Regulation of Land Use*

Ganong, Peter, and Daniel Shoag (2017) "Why Has Regional Income Convergence in the U.S. Declined?" *Journal of Urban Economics* 102: 76-90.

Veuger, Stan (2024) "Housing and the American Worker," The American Worker Project: Toward a New Consensus. Economic Innovation Group, July.

Molotch, Harvey (1976) "The City as a Growth Machine: Toward a Political Economy of Place," *American Journal of Sociology* 82(2): 309-332. [classic]

*Wednesday, November 20: Regulation of Immigration*

American Immigration Council (2021) "How the United States Immigration System Works," September.

Clemens, Michael, A. (2011) "Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?" *Journal of Economic Perspectives* 25 (3): 83-106.

Card, David (1990) "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review* 43(2): 245-257. [classic]

*Monday, November 25: Choice of Instrument: Climate Policy*

Gruber, Chapter 6

Bistline, John E.T., Neil R. Mehrotra, and Catherine Wolfram (2023) "Economic Implications of the Climate Provisions of the Inflation Reduction Act," *Brookings Papers on Economic Activity* Spring: 77-182.

Weitzman, Martin L. (1974) "Prices vs. Quantities," *Review of Economic Studies* 41(4): 477-491. [classic]

*Monday, December 2: Choice of Instrument: Trade Policy*

Irwin, Douglas A. (1996) *Three Simple Principles of Trade Policy*. Washington, DC: AEI Press.

Clayton, Christopher, Matteo Maggiori, and Jesse Schreger (2023) "A Framework for Geoeconomics," *VoxEU*, March 4.

Ricardo, David (1817) "On Foreign Trade." *On the Principles of Political Economy and Taxation*. London: John Murray. [classic]

*Wednesday, December 4: Choice of Instrument: Redistribution*

Gruber, Chapter 17

Clemens, Jeffrey (2019) "Making Sense of the Minimum Wage: A Roadmap for Navigating Recent Research," *Cato Institute Policy Analysis* 867.

Diamond, Peter, and Emmanuel Saez (2011) "From Basic Research to Policy Recommendations: The Case for a Progressive Tax," *Journal of Economic Perspectives* 25(4): 165-190.

Mirrlees, James A. (1971) "An Exploration in the Theory of Optimum Income Taxation," *Review of Economic Studies* 38(2): 175–208. [classic]