

**Economics 849**  
**Public Finance**  
**Fall Semester 2000**  
**Thursdays, 1630-1910**  
**Enterprise Hall 318**

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The point of this course is to survey the theory of public finance, as this is characterized in the course outline and bibliography. The course material will be presented as an exercise in polyphony, much as has characterized the historical development of public finance as a field of academic study. This polyphonic character is illustrated nicely by the course text: *Public Finance and Public Choice*, 2<sup>nd</sup> ed. by John Cullis and Philip Jones.

One voice that appears persistently in the literature on public finance is a choice theoretic voice. Fiscal phenomena are treated as being generated externally to the economic process, and are typically construed as some government's optimizing choice. The other voice is catallactic. Fiscal phenomena are treated as being internal to the economic process. They arise not from simple acts of choice by some single mind but rather emerge out of complex processes of exchange and domination.

It is safe to say that over the past century or so, the dominant professional voice has been choice-theoretic. The catallactic voice has, however, had a continual presence as well over this period. Moreover, in my judgment the catallactic voice will exert a growing presence on the years ahead, partly for reasons that I sketched in "The Impending Transformation of Public Choice Scholarship," *Public Choice* 77 (1993): 203-12.

The potential for a catallactic approach to public finance was voiced nicely by Richard Goode in the March 1970 issue of the *Journal of Economic Literature*. There, Goode compared articles on public finance written for the 1930 *Encyclopedia of the Social Sciences* with articles written for the 1968 *International Encyclopedia of the Social Sciences*. In commenting on what he regarded as the deficiencies of the more recent volume, Goode remarked that "a sophisticated and unified treatment of the economic, political, legal, and administrative elements of public finance is needed. Unification would represent a return to a tradition as old as that of the Cameralists, but for modern readers sophistication can be attained only by rethinking old problems and using new techniques. There is much to be done and work for a variety of talents" (p. 34).

My work for this course will involve the presentation of the course material, as described in the course outline and bibliography. This will be done in pretty much of a standard of lecture cum discussion format. Your work will be of three forms, and will comprise the basis for your course grade.

- A set of eight short, 3-5 page essays. The point of these essays is to encourage you to think creatively and critically about the topic under discussion. A topic will be announced at the end of one class session, and will be due at the start of the next class session. These essays will count collectively for 40 percent of the course grade.
- A longer essay of up to 20 pages. This should be in standard manuscript format. For this assignment you should think of me as the editor of a professional journal on public finance with a strong interest in promoting a catallactical approach. To help you get started on this project, I ask that you submit a one-page abstract or outline of what you propose to do no later than the start of class on 12 October. This paper will count for 40 percent of the course grade. It will be due by 1630 on 14 December.
- My evaluation of your contributions to classroom discussions will count for the remaining 20 percent.

The task of graduate grading is pretty much one of my putting your work into one of three categories, corresponding to the A-B-C scale. The grade I give you is my bottom-line assessment of your performance on that assignment. *For the longer essay*, an “A” means I would truly encourage you to revise the paper for publication if I were editing such a journal. A “B” means that I would not encourage you to do so, though at the same time I think there is something there that I would encourage you to think about. A “C” means that I think you should spend no more time on this project. *For the short essays*, an “A” means that you have convinced me that this idea is worth further exploration. A “B” means that I find nothing wrong with your argument, but neither do I find any reason to encourage you to pursue the idea further. A “C” means that I find some significant holes or failings in your argument.

With respect to the course readings, I should perhaps explain that I have selected them according to what I anticipate will be their contribution to my course objectives, and not because they are classics in the field. Numerous additional references will be mentioned throughout the semester. Moreover, the items you read will refer to other works that you doubtlessly will find worth looking at. Furthermore, you should make some systematic effort to secure working papers on relevant topics, and many of these are available through the internet. In other words, the readings listed here constitute but a minimalist list. You will need to do much more reading to achieve reasonable mastery over the field. To help you in this respect, I will pass out relevant chapters of the *Handbook of Public Finance*, which Jürgen Backhaus, at Maastricht, and I are editing for Kluwer, as these become available in draft form during the semester.

## COURSE OUTLINE AND BIBLIOGRAPHY

### 1. The Theory of Public Finance: A Historical Review (31 Aug.)

Buchanan, J. M. "Public Finance and Public Choice," *National Tax Journal* 28 (1975): 383-94.

Pantaleoni, M. "Contribution to the Theory of the Distribution of Public Expenditure," pp. 16-27 in R. A. Musgrave and A. T. Peacock, eds., *Classics in the Theory of Public Finance*.

Wicksell, K. "A New Principle of Just Taxation," pp. 72-118 in R. A. Musgrave and A. T. Peacock, eds., *Classics in the Theory of Public Finance*.

Edgeworth, F. Y. "The Pure Theory of Taxation," pp. 119-36 in R. A. Musgrave and A. T. Peacock, eds., *Classics in the Theory of Public Finance*.

### 2. Welfare Economics, State Competence, and Public Finance (7 Sept.)

Cullis and Jones, Chapters 1 & 2.

Stuart, C. "The Welfare Cost Per Dollar of Additional Tax Revenue in the United States." *American Economic Review* 74 (June 1984): 352-62.

Fullerton, D. "Reconciling Recent Estimates of the Marginal Welfare Cost of Taxation." *American Economic Review* 81 (1991): 302-08.

Grossman, M., Sindelar, J., Mullahy, J. and Anderson, R. "Policy Watch: Alcohol and Cigarette Taxes." *Journal of Economic Perspectives* 7 (no. 4, 1993): 211-22.

Cook, P. J. & Moore, M. J. "This Tax's for You: The Case for Higher Beer Taxes," *National Tax Journal* 47 (1994): 559-73.

Browning, E. K. "The Myth of Fiscal Externalities," *Public Finance Review* 27 (January 1999): 3-18.

### 3. Public Goods, Collective Choice, and Budgetary Process (14 Sept.)

Cullis and Jones, Chapters 3 & 4.

Marlow, M. L. and Orzechowski, W. P. "The Separation of Spending from Taxation: Implications for Collective Choices," *Constitutional Political Economy* 8 (1997): 151-63.

Backhaus, J. G. "Land Rents and Ecological Crisis: The Case of the Oder River Valley," *American Journal of Economics and Sociology*, 58 (April 1999): 193-96.

Roberts, R. "Financing Public Goods." *Journal of Political Economy* 95 (1987): 420-37.

Coates, D. "Public Sector Crowding Out of Private Provision of Public Goods," *Public Finance Review* 26 (September 1998): 460-79.

#### **4. Enterprises, Bureaus, and the Organization of Production (21 Sept.)**

Cullis and Jones, Ch. 5.

Lott, J. R., Jr. "Predation by Public Enterprises." *Journal of Public Economics* 43 (1990): 237-51.

Yandle, B. "User Charges, Rent Seeking, and Public Choice." Pp. 34-59 in R. E. Wagner, ed., *Charging for Government*.

Romer, T. and Rosenthal, H. "Median Voters or Budget Maximizers." *Economic Inquiry* 20 (1982): 556-78.

Migué, J. and Bélanger, G. "Toward a General Theory of Managerial Discretion." *Public Choice* 17 (1974): 27-43.

#### **5. Benefit-Cost analysis and Economic Calculation (28 Sept.)**

Cullis and Jones, Ch. 6.

Layard, R. & Glaister, S., eds. *Cost-Benefit Analysis*, 2nd ed., pp. 1-56.

Hanke, S. H. & Walker, R. A. "Benefit-Cost Analysis Reconsidered," *Water Resources Research* 10 (October 1974): 898-908.

Pasour, E. C., Nieuwoudt, W. L., and Hoag, D. L. "Passive-use Value, Contingent Valuation, and Public Policy," *Journal of Public Finance and Public Choice* 11(1993): 77-88.

Portney, P. "The Contingent Valuation Debate: Why Economists Should Care." *Journal of Economic Perspectives* 8 (1994): 3-18.

## **6. Tax Norms, Tax Forms, and Tax Structure (5 Oct.)**

Cullis and Jones, Chs. 7, 15, 16.

Buchanan, J. M. "The Political Efficiency of General Taxation," *National Tax Journal* 46 (December 1993): 401-10.

Hettich, W. & Winer, S. "Economic and Political Foundations of Tax Structure." *American Economic Review* 78 (1988): 701-12.

Becker, G. S. "A Theory of Competition among Pressure Groups for Political Influence." *Quarterly Journal of Economics* 98 (1983): 371-400.

Hunter, W. J. and Nelson, M. A. "Interest Group Demand for Taxation," *Public Choice* 62 (1989): 41-61.

Forte, F. "On the Erosion of the Rule of Law Principle in Tax Matters," *Journal of Public Finance and Public Choice* (1997): 5-35.

## **7. Taxation, Production, and the Market Process (12 Oct.)**

Cullis and Jones, Chs. 8 & 10.

Barzel, Y. "An Alternative Approach to the Analysis of Taxation." *Journal of Political Economy* 84 (1976): 1177-97.

Stuart, C. E. "Swedish Tax Rates, Labor Supply, and Tax Revenues." *Journal of Political Economy* 89 (1981): 1020-38.

Boskin, M. J. "Taxation, Saving, and the Rate of Interest." *Journal of Political Economy* 86 (1978): S3-S27.

McLure, C. E. "Taxes, Saving, and Welfare." *National Tax Journal* 33 (1980): 311-20.

Harberger, A. C. "The Incidence of the Corporation Income Tax." *Journal of Political Economy* 70 (1962): 215-40.

Lemieux, T., Fortin, B., and Frechette, P. "The Effect of Taxes on Labor Supply in the Underground Economy." *American Economic Review* 84 (1994): 231-54.

## **8. Debt, Money, and Public Finance (19 Oct.)**

Cullis and Jones, Ch. 11.

Barro, R. J. "On the Determination of the Public Debt." *Journal of Political Economy* 87 (October 1979): 940-71.

Congleton, R. "The Politics of Debt," *Journal of Public Finance and Public Choice* 10 (1992): 17-34.

Selgin, G. and White, L. H. "A Fiscal Theory of Government's Role in Money," *Economic Inquiry* 37 (January 1999): 154-65.

Iversen, T. "The Political Economy of Inflation: Bargaining Structure or Central Bank Independence?" *Public Choice* 99 (1999): 237-58.

Boyes, W. J., Mounts, W. S., and Sowell, C. "Monetary and Fiscal Constitutions and the Bureaucratic Behavior of the Federal Reserve," *Public Finance Review* 26 (November 1998): 548-64.

## **9. Redistribution, Social Security, and Poor Relief (26 Oct.)**

Cullis and Jones, Ch. 9.

Browning, E. K. "Why the Social Insurance Budget is too Large in a Democracy." *Economic Inquiry* 13 (1975): 373-88.

Hansson, I. & Stuart, C. "Social Security as Trade among Living Generations," *American Economic Review* 79 (1989): 1182-95.

Stigler, G. J. "Director's Law of Public Income Redistribution," *Journal of Law and Economics* 13 (1970): 1-10.

Colburn, C. B. and Horowitz, J. B. "Efficiency Costs and the Demand for Income Redistribution," *Public Finance Review* 26 (May 1998): 14-30.

Grossman, H. "Robin Hood and the Redistribution of Property Income." *European Journal of Political Economy* 11 (1995):

Breyer, F. "The Political Economy of Intergenerational Redistribution." *European Journal of Political Economy* 10 (1994): 61-84.

## **10. Public Finance and Local Government (2 Nov.)**

Cullis and Jones, Ch. 12 (pp. 293-315).

Vihanto, M. "Competition between Local Governments as a Discovery Procedure," *Journal of Institutional and Theoretical Economics* 148 (1992): 411-36.

Epple, D. & Zelnitz, A. "The Implications of Competition among Jurisdictions: Does Tiebout Need Politics?" *Journal of Political Economy* 89 (1981): 1197-1217.

Henderson, J. V. "The Tiebout Model: Bring Back the Entrepreneurs." *Journal of Political Economy* 93 (1985): 248-64.

Wilson, J. D. "Theories of Tax Competition," *National Tax Journal* 52 (June 1999): 269-304.

Gyourko, J. and Tracy, J. "The Structure of Local Public Finance and the Quality of Life." *Journal of Political Economy* 99 (1991): 774-806.

Epple, D. and Romer, T. "Mobility and Redistribution." *Journal of Political Economy* 99 (1991): 828-58.

## **11. Federalism, Subsidiarity, and Polycentric Polities (9 Nov.)**

Cullis and Jones, Ch. 12 (pp. 315-32).

Holcombe, R. G. and Stroup, M. D. "Federal Funding and the Cartelization of State Governments," *Journal of Public Finance and Public Choice* 11 (1993): 101-09.

Shadbegian, R. J. "Fiscal Federalism, Collusion, and Government Size," *Public Finance Review* 27 (May 1999): 262-81.

Oates, W. E. "On the Welfare Gains from Fiscal Decentralization," *Journal of Public Finance and Public Choice* (1997): 83-92.

Grossman, P. J. "Federalism and the Size of Government." *Southern Economic Journal* 55 (1989): 580-93.

Hamlin, A. "The Political Economy of Constitutional Federalism," *Public Choice* 46 (1985): 187-95.

## **12. International Public Finance (16 Nov.)**

Cullis and Jones, Ch. 13.

Garfinkel, M. R. "Arming as a Strategic Investment in a Cooperative Equilibrium." *American Economic Review* 80 (1990): 50-68.

Sutter, D. "Legitimacy and Military Intervention in a Democracy," *American Journal of Economics and Sociology* 58 (January 1999): 129-43.

Anderton, C. H., Anderton, R. A., and Carter, J. D. "Economic Activity in the Shadow of Conflict," *Economic Inquiry* 37 (January 1999): 166-79.

Becker, G. S. and Stigler, G. J. "Law Enforcement, Malfeasance, and the Compensation of Enforcers," *Journal of Legal Studies* 3 (January 1974): 1-18.

Arce, D. G. "Leadership and the Aggregation of International Collective Action." *Oxford Economic Papers*, forthcoming.

## **13. Growth of Government and Size of States (30 Nov.)**

Cullis and Jones, Ch. 14.

Borcherding, T. E. "The Causes of Government Expenditure Growth." *Journal of Public Economics* 28 (1985): 359-82.

Meltzer, A. H. and Richard, S. F. "A Rational Theory of the Size of Government," *Journal of Political Economy* 89 (1981): 914-25.

Mueller, D. C. and Murrell, P. "Interest Groups and the Size of Government," *Public Choice* 48 (1986): 125-45.

Alesina, A. and Spolaore, E. "On the Number and Size of Nations." *Quarterly Journal of Economics* 112 (1997): 1027-56.

Friedman, D. "A Theory of the Size and Shape of Nations." *Journal of Political Economy* 85 (1977): 59-77.

Bolton, P. and Roland, G. "The Breakup of Nations: A Political Economy Analysis," *Quarterly Journal of Economics* 112 (1997): 1057-90.

**14. Fiscal Sociology (7 Dec.)**

Webber, C. and Wildavsky, A. *A History of Taxation and Expenditure in the Western World*, Ch. 1.

Schumpeter, J. A. "The Crisis of the Tax State," *International Economic Papers*, no. 4, pp. 5-38.

Backhaus, J. G. "The State as a Club: A Perspective for Public Finance in a Prosperous Democracy," *Journal of Public Finance and Public Choice* (1992): 3-16.

Backhaus, J. G. "Taxation: An Austrian Approach," manuscript, University of Maastricht.

Backhaus, J. G. "The Concept of the Tax State in Modern Public Finance Analysis," manuscript, University of Maastricht.

Wagner, R. E. "Choice, Exchange, and Public Finance," *American Economic Review*, 87 (May 1997): 160-63.

Wagner, R. E. "Parasitical Political Pricing, Economic Calculation, and the Size of Government: Variations on a Theme by Maffeo Pantaleoni," *Journal of Public Finance and Public Choice* (1997): 135-46.