ECO 341: Public Finance
Princeton University

Professors:
Henrik J. Kleven, Owen M. Zidar

Course Outline:
This course covers the microeconomic functions of government – the way in which government policies affect resource allocation and the distribution of income. Policies to be covered include fiscal policy, taxation and tax enforcement, welfare policy, parental leave, childcare, social insurance, public goods, and place-based policies.

Course Materials:
Lecture notes will be made available online prior to each lecture. All required readings are available online and marked with [∗] in the reading list below. A useful background reference is the textbook by Jonathan Gruber, *Public Finance and Public Policy*, 6th edition, 2019 (or earlier editions), but this book is optional. Students are expected to read the media articles listed under each topic.

Restrictions and Prerequisites:
The course is not open to first-year undergraduates. As a prerequisite for the course, students must have taken ECO 300/ECO 310/WWS 300 as well as ECO 302/ECO 312.

Reading and Writing Assignments:
Around 75-100 pages of reading per week.

Grading:
Midterm Exam 50%
Final Exam 50%

Schedule:
Lectures: Tuesdays and Thursdays 2:30-3:20pm
Classes: C01 Tuesday 3:30-4:20pm, C02 Wednesday 1:30-2:20pm

Midterm:
In class on Tuesday 4/2/2020 from 2:30-3:20pm. Covers Topics 1-7.

Background References

Public Economics:

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York.

Empirical Methods:

Angrist, Joshua D., and Jörn-Steffen Pischke (2009). *Mostly Harmless Econometrics: An Empiricist's Companion*, Princeton University Press: Princeton.

Angrist, Joshua D., and Jörn-Steffen Pischke (2015). *Mastering Metrics: The Path from Cause to Effect*, Princeton University Press: Princeton.

Currie, Janet, Henrik J. Kleven, and Esmée Zwiers (2020). "Technology and Big Data Are Changing Economics: Mining Text to Track Methods", *AEA Papers & Proceedings*, forthcoming.

Lecture Topics and Readings

1. Overview of Public Finance and U.S. Fiscal Policy [Zidar]

Media Readings:

Mankiw, Greg, 2019, "The National Debt is still a problem." *New York Times*, June 20.

Krugman, Paul, 2019, "Melting Snowballs and the Winter of Debt." *New York Times*, January 9.

Academic Readings:

[*] Gale, William, 2019, *Fiscal Therapy: Curing America's Debt Addition and Investing in the Future*. Chapters 1. Chapters 2 and 3 are not required but may also be of interest.

Moss, Emily, Ryan Nunn, and Jay Shambaugh (2020) "The Economics of Federal Tax Policy" in *Tackling the Tax Code: Efficient and Equitable Ways to Raise Revenue*. Hamilton Project, Washington DC.

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapters 1 and 4.

Congressional Budget Office, 2020, "The Budget Outlook: 2020 to 2030."

Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman, 2018, "Distributional National Accounts: Methods and Estimates for the United States," *Quarterly Journal of Economics,* 133(2): 553-609.

2. Low-Income Support: EITC and Welfare Programs [Kleven]

Media Readings:

The Economist (2006). "From Welfare to Workfare", July 27.

The Nation (2018). "Moving Beyond the Earned Income Tax Credit", November 15.

The New York Times (2014). "Cutting the Poor Out of Welfare", June 17.

The New York Times (2014). "A Big Safety Net and Strong Job Market Can Coexist. Just Ask Scandinavia", December 17.

Vox (2017). "Wages are stagnating, robots are taking our jobs. This Democrat has a $1.4 trillion solution", September 16.

Vox (2019). "A major new study finds the biggest federal work subsidy doesn't promote work", October 2019.

Academic Readings:

Blank, Rebecca M. (2002). "Evaluating Welfare Reform in the United States", *Journal of Economic Literature* 40(4), 1105-1166.

[∗] Chetty, Raj, John N. Friedman, and Emmanuel Saez (2013). "Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings", *American Economic Review* 103(7), 2683-2721.

[∗] Eissa, Nada, and Jeffrey B. Liebman (1996). "Labor Supply Response to the Earned Income Tax Credit", *Quarterly Journal of Economics* 111(2), 605-637.

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapters 17 and 21.

[∗] Kleven, Henrik J. (2019). "The EITC and the Extensive Margin: A Reappraisal", NBER Working Paper No. 26405, September 2019.

Meyer, Bruce D. (2010). "The Effects of the Earned Income Tax Credit and Recent Reforms", *Tax Policy and the Economy* 24(1), 153-180.

3. Taxing the Rich: Inequality and Behavioral Responses [Kleven]

Media Readings:

The Economist (2011). "Diving Into the Rich Pool", September 22.

The New York Times (2008). "Taxes and Revenues – Another History Lesson", January 16.

The New York Times (2012). "I Can Afford Higher Taxes. But They'll Make Me Work Less", October 9.

The New York Times (2019). "The Rich Really Do Pay Lower Taxes Than You", October 6.

Vox (2019). "How to Tax the Rich, Explained", March 19.

Academic Readings:

[∗] Feldstein, Martin S. (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), 551-572.

[∗] Kleven, Henrik J. (2014). "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives* 28(4), 77-98.

Saez, Emmanuel (2017). "Taxing the Rich More: Preliminary Evidence from the 2013 Tax Increase", *Tax Policy and the Economy* 31(1), 71-120.

[∗] Saez, Emmanuel, Joel B. Slemrod, and Seth H. Giertz (2012). "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review", *Journal of Economic Literature* 50(1), 3-50.

4. Tax Evasion and Enforcement [Kleven]

Media Readings:

The New York Times (2017). "Paradise Papers Show How Misguided the G.O.P. Is on Taxes", November 12.

The New Yorker (2011). "Dodger Mania", July 11.

Scroll.in (2016). "Crisis of Trust: Why Indians Evade Taxes", November 5.

Süddeutsche Zeitung (2017). "Fueling Inequality", November 9.

Academic Readings:

[∗] Alstadsæter, Annette, Niels Johannesen, and Gabriel Zucman (2019). "Tax Evasion and Inequality," *American Economic Review* 109(6), 2073-2103.

[∗] Kleven, Henrik J. (2014). "How Can Scandinavians Tax So Much?" *Journal of Economic Perspectives* 28(4), 77-98.

[∗] Kleven, Henrik J., Martin B. Knudsen, Claus T. Kreiner, Søren Pedersen, and Emmanuel Saez (2011). "Unwilling or Unable to Cheat? Evidence from a Tax Audit Experiment in Denmark", *Econometrica* 79(3), 651-692.

Kleven, Henrik J., Claus T. Kreiner, and Emmanuel Saez (2016). "Why Can Modern Governments Tax So Much? An Agency Model of Firms as Fiscal Intermediaries", *Economica* 83(330), 219-246.

Luttmer, Erzo F. P., and Monica Singhal (2014). "Tax Morale", *Journal of Economic Perspectives* 28(4), 149-168.

Slemrod, Joel B., and Shlomo Yitzhaki (2002). "Tax Avoidance, Evasion and Administration," in Alan J. Auerbach and Martin S. Feldstein (eds.), *Handbook of Public Economics* vol. 3, Elsevier: Amsterdam.

Zucman, Gabriel (2014). "Taxing Across Borders: Tracking Personal Wealth and Corporate Profits", *Journal of Economic Perspectives* 28(4), 121-48.

5. Optimal Taxation and Redistribution [Kleven]

Media Readings:

The Guardian (2013). "Why the 1% Should Pay Tax at 80%", October 24.

The New York Times (2019). "How to Tax Our Way Back to Justice", October 11.

Academic Readings:

Akerlof, George A. (1978). "The Economics of 'Tagging' as Applied to Optimal Income Tax, Welfare Programs, and Manpower Planning," *American Economic Review* 68(1), 8-19.

[∗] 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.

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapter 20.

Nichols, Albert L., and Richard J. Zeckhauser (1982). "Targeting Transfers through Restrictions on Recipients," *American Economic Review Papers & Proceedings* 72(2), 372-77.

[∗] Piketty, Thomas, and Emmanuel Saez (2013). "Optimal Labor Income Taxation," in Alan J. Auerbach, Raj Chetty, Martin S. Feldstein, and Emmanuel Saez (eds.), *Handbook of Public Economics* vol. 5, Elsevier: Amsterdam.

[∗] Piketty, Thomas, Emmanuel Saez, and Stefanie Stantcheva (2014). "Optimal Taxation of Top Labour Incomes: A Tale of Three Elasticities", *American Economic Journal: Economic Policy* 6(1), 230-271.

6. Gender Inequality and Family Policies [Kleven]

Media Readings:

The Economist (2009). "Female Power", December 30.

The Guardian (2016). "UK Women Still Far Adrift on Salary and Promotion As Gender Pay Gap Remains a Gulf", August 23.

The New York Times (2015). "Mounting Evidence of Advantages for Children of Working Mothers", May 15.

The New York Times (2017). "How to Win the Battle of the Sexes Over Pay", November 10.

The New York Times (2018). "Even in Family-Friendly Scandinavia, Mothers Are Paid Less", February 5.

Academic Readings:

[∗] Baker, Michael, Jonathan Gruber, and Kevin Milligan (2008). "Universal Child Care, Maternal Labor Supply, and Family Well-Being", *Journal of Political Economy* 116(4), 709-745.

Bertrand, Marianne, Claudia Goldin, and Lawrence F. Katz (2010). "Dynamics of the Gender Gap for Young Professionals in the Financial and Corporate Sectors", *American Economic Journal: Applied Economics* 2(3), 228–255.

Carneiro, Pedro, Katrine V. Løken, and Kjell G. Salvanes (2015). "A Flying Start? Maternity Leave Benefits and Long-Run Outcomes of Children", *Journal of Political Economy* 123(2), 365-412.

[∗] Dahl, Gordon B., Katrine V. Løken, Magne Mogstad, and Kari G. Salvanes (2016). "What Is The Case for Paid Maternity Leave?" *Review of Economics and Statistics* 98(4), 655-670.

Fort, Margherita, Andrea Ichino, and Giulio Zanella (2020). "Cognitive and Non-Cognitive Costs of Daycare 0-2 for Children in Advantaged Families", *Journal of Political Economy* 128(1), 158-205.

Goldin, Claudia (2014). "A Grand Gender Convergence: Its Last Chapter", *American Economic Review* 104(4), 1091-1119.

[∗] Kleven, Henrik J., Camille Landais, Johanna Posch, Andreas Steinhauer, and Josef Zweimüller (2019). "Child Penalties Across Countries: Evidence and Explanations", *AEA Papers & Proceedings* 109, 122-126.

[∗] Kleven, Henrik J., Camille Landais, and Jakob E. Søgaard (2019). "Children and Gender Inequality: Evidence from Denmark", *American Economic Journal: Applied Economics* 11, 181-209.

7. Social Insurance [Kleven]

Media Readings:

The Atlantic (2010). "The Case For and Against Unemployment Insurance ", July 20.

The Atlantic (2013). "Disability Insurance: America's $124 Billion Secret Welfare Program", March 25.

The Economist (2015). "Love and Other Drugs: The Case for Ditching the NHS", October 23.

The Guardian (2010). "On Moral Hazard and Unemployment", August 6.

The New York Times (2016). "Health Reform Realities", January 18.

The New York Times (2019). "Which Health Policies Actually Work? We Rarely Find Out", September 9.

Vox (2018). "In Defense of Social Security Disability Insurance", March 8.

Academic Readings:

[∗] Aron-Dine, Aviva, Liran Einav, and Amy Finkelstein (2013). "The RAND Health Insurance Experiment, Three Decades Later", *Journal of Economic Perspectives* 27(1), 197-222.

[∗] Baicker, Katherine, Sarah Taubman, Heidi Allen, Mira Bernstein, Jonathan Gruber, Joseph Newhouse, Eric Schneider, Bill Wright, Alan Zaslavsky, and Amy Finkelstein (2013). "The Oregon Experiment – Effects of Medicaid on Clinical Outcomes", *New England Journal of Medicine* 368(18), 1713-1722.

[∗] Chetty, Raj, and Amy Finkelstein (2013). "Social Insurance: Connecting Theory to Data", in Alan J. Auerbach, Raj Chetty, Martin S. Feldstein, and Emmanuel Saez (eds.), *Handbook of Public Economics* vol. 5, Elsevier: Amsterdam.

Chetty, Raj, and Emmanuel Saez (2010). "Optimal Taxation and Social Insurance with Endogenous Private Insurance", *American Economic Journal: Economic Policy* 2(2), 85-114.

[∗] Einav, Liran, and Amy Finkelstein (2011). "Selection in Insurance Markets: Theory and Empirics in Pictures", *Journal of Economic Perspectives* 25(1), 115-138.

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapters 12, 14, and 15.

8. US Health Insurance: Medicare and Medicaid [Zidar]

Media Readings:

Vox (2019) "We read 9 Democratic Plans for Expanding Healthcare. Here's how they work." June 21.

New York Times (2019) "Elizabeth Warren's Medicare-for-all Math." November 1.

Academic Readings:

Anderson, Gerard, Uwe Reinhardt, Peter Hussey, and Varduhi Petrosyan (2003). "It's the Prices, Stupid: Why the United States is So Different from Other Countries", *Health Affairs* 22(3), 89-105.

Cooper, Zack, Stuart V. Craig, Martin Gaynor, and John Van Reenen (2019). "The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured", *Quarterly Journal of Economics* 134(1), 51-107.

[∗] Currie, Janet, and Jonathan Gruber (1996). "Saving Babies: The Efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women", *Journal of Political Economy* 104(6), 1263-1296.

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapter 16.

Brot-Goldberg, Zarek C., Amitabh Chandra, Benjamin R. Handel, Jonathan T. Kolstad (2017) "What Does a Deductible Do? The Impact of Cost- Sharing on Health Care Prices, Quantities, and Spending Dynamic", forthcoming *Quarterly Journal of Economics*.

Card, David, Carlos Dobkin, and Nicole Maestas. (2009) "Does Medicare save lives?." *Quarterly Journal of Economics* 124.2: 597-636.

Finkelstein, Amy, Nathan Hendren, and Erzo Luttmer (2019) "The Value of Medicaid: Interpreting the Results of the Oregon Health Insurance Experiment. *Journal of Political Economy,* 127.6.

Finkelstein, Amy, Nathan Hendren, and Mark Shepard (2019). "Subsidizing Health Insurance for Low-Income Adults: Evidence from Massachusetts" *American Economic Review* 109(4): 1530-67.

Kolstad, Jonathan and Amanda Kolwalski (2016). "Mandate-based Health Reform and the Labor Market: Evidence from the Massachusetts Reform" *Journal of Health Economics* 47, 81-106.

Finkelstein, Amy, Neale Mahoney, Matt Notowidigdo (2018) "What does (formal) health insurance do and for whom? *Annual Review of Economics* 2018: 10-261-86.

Gale, William, 2019, *Fiscal Therapy: Curing America's Debt Addition and Investing in the Future*. Chapter 7 on Reforming US Healthcare.

9. The distribution and taxation of wealth and capital income [Zidar]

Media Readings:

The Economist (2019). "Measuring the 1% Economists are rethinking the numbers on inequality," November 28.

Rubin, Richard (2019). "Democrats' Emerging Tax Idea: Look Beyond Income, Target Wealth," Wall Street Journal, August 27.

Smith, Noah (2019). "Inequality is Up a Lot. The Question is: How Much?" Bloomberg, December 27.

Saez, Summers, Mankiw Wealth Tax Debate (2019). Peterson Institute for International Economics Conference on Combating Inequality. October 18.

Cassidy, John, 2019. "Why Elizabeth Warren's Wealth Tax Would Work" *New Yorker,* January 31.

Bui, Quoctrung, Kevin Quealy, and Rumsey Taylor, 2019, "Are you rich? Where does your networth rank in America?" *New York Times*, August 12.

Academic Readings:

[*] Saez, Emmanuel and Gabriel Zucman (2019). "Progressive Wealth Taxation" *Brookings Papers on Economic Activity.*

Kopczuk, Wojciech, 2015, "What do we know about the evolution of top wealth shares in the united states?" *Journal of Economic Perspectives,* 29(1): 47-66.

Jakobsen, Katrine, and Kristian Jakobsen, Henrik Kleven, and Gabriel Zucman (2020). "Wealth Taxation and Wealth Accumulation: Evidence from Denmark," *Quarterly Journal of Economics,* 135(1): 329-388.

[*] Smith, Matt, Owen Zidar, and Eric Zwick, 2019, "Top Wealth In America: New Estimates and Implications for Taxing the Rich," working paper.

Saez, Emmanuel and Gabriel Zucman, 2016, "Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data," *Quarterly Journal of Economics,* 131(2): 519-578.

Zucman, Gabriel (2019). Global Wealth Inequality. *Annual Review of Economics 11:109-38.*

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapter 23.

10. Firms and tax policy [Zidar]

Media Readings:

Clausing, Kim, 2017, "Does Taxing US Corporations Make Sense in a Global Economy?" Econofact.

Summers, Larry, 2017, "One last time on who benefits from corporate tax cuts" Washington Post, October 22.

Mankiw, Greg, 2017. "How to best tax businesses," *New York Times.*

Furman, Jason, 2017, "How to make tax reform bipartisan," *WSJ.*

Academic Readings:

Suárez Serrato, Juan Carlos, and Owen Zidar, "Who Benefits from State Corporate Tax Cuts? A Local Labor Market Approach with Heterogeneous Firms" *American Economic Review*, 106(9): 2582-2624, September 2016.

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapter 24.

Barro, Robert and Jason Furman, 2018, "The macroeconomic effects of the 2017 tax reform," Brookings Papers on Economic Activity.

Cooper, Michael, John McClelland, James Pearce, Richard Prisinzano, Joe Sullivan, Danny Yagan, Owen Zidar, and Eric Zwick, 2016, "Business in the United States: Who Owns it and How Much Tax Do They Pay?" in *Tax Policy and the Economy*, Cambridge: MIT Press, Vol 30: 90-128, Brown.

Zucman, Gabriel, 2014, "Taxing Across Borders: Tracking Personal Wealth and Corporate Profits," *Journal of Economic Perspectives*, 28(4): 121-148.

11. Public Goods and Externalities [Zidar]

Media Readings:

Vox (2019) The law that's helping fuel Delhi's deadly air pollution, December 16. Video.

Academic Readings:

Currie, Janet and Reed Walker (2019). "What do economists have to say about the Clean Air Act 50 Years after the establishment of the Environmental Protection Agency?" *Journal of Economic Perspectives,* 33(4), 3-36.

Lans Bovenberg and Lawrence Goulder, "Environmental Taxation and Regulation," *Handbook of Public Economics*, vol. 3, Chapter 23; Section 4.

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapters 5, 6, and 7.

12. State and Local Fiscal Policy and Place-based Policies [Zidar]

Media Readings:

Chetty, Raj, Nathan Hendren, Pat Kline, Emmanuel Saez, 2014 "Where is the land of opportunity? Intergenerational mobility in the US?" *Voxeu.org*

New York Times Editorial Board (2019) "State and Local Taxes are worsening inequality," July 20.

Florida, Richard (2019) Don't Move People Out of Distressed Places. Instead, Revitalize Them. *Citylab,* September 12.

Rubin, Richard (2020) "Economists Question the Benefits of Targeted Tax Breaks" *WSJ.* January 6.

Academic Readings:

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapters 10.

[*] Kline, Pat, and Enrico Moretti (2014), "People, Places, and Public Policy: Some Simple Welfare Economics of Local Economic Development Policies," *Annual Review of Economics*, August, 629-662.

Nunn, Ryan, Jana Parsons, and Jay Shambaugh (2019) "Nine Facts about state and local Policy" *The Hamilton Project*, January.

[*] Slattery, Cailin, and Owen Zidar (2020), "Evaluating State and Local Business Tax Incentives," *Journal of Economic Perspectives*.

Busso, Matias, Jesse Gregory, Pat Kline, 2014, "Results of the federal urban Empowerment Zone program."

Austin, Benjamin, Ed Glaeser, Larry Summers, 2018, "Saving the heartland: Place-based policies in 21st century America" *Brookings Papers on Economic Activity.*

Bartik, Timothy J. 2019. "Should Place-Based Jobs Policies Be Used to Help Distressed Communities?" Upjohn Institute Working Paper 19-308. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

13. Social Security and Retirement [Zidar]

Media Readings:

Rothstein, Jesse (2017) "Social Security Benefits: When do you plan to retire?" *Econofact*. February.

Washington Post (2020) "Social Security needs a fix. Here's how the 2020 presidential candidates would resolve the looming crisis." January 20.

Academic Readings:

Gruber, Jonathan (2019). *Public Finance and Public Policy,* 6th edition, Worth Publishers: New York. Chapter 13.

Madrian, Brigitte C., and Dennis F. Shea. (2001) "The power of suggestion: Inertia in 401 (k) participation and savings behavior." *Quarterly Journal of Economics* 116.4: 1149-1187.

[*] Chetty, Raj, et al. (2014) "Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark" *Quarterly Journal of Economics* 129(3): 1141-1219.

Sabelhaus, John and Alice Henriques Volz (2019) Are disappearing employer pensions contributing to rising wealth inequality? *Feds Notes*, November.

Gale, William, 2019, *Fiscal Therapy: Curing America's Debt Addition and Investing in the Future*. Chapter 8 on Social Security.