

JONATHAN GRUBER

PUBLIC FINANCE AND PUBLIC POLICY

FIFTH EDITION



Public Finance and Public Policy: A Tour Through the Book

PART I Introduction and Background

1 Why Study Public Finance?

The goal of studying public finance is to understand the proper role of the government in the economy. The changing role of government and exciting current policy debates motivate the study of this field.

2 Theoretical Tools of Public Finance

We review the microeconomic tools necessary to understand the effects of government intervention in the economy.

3 Empirical Tools of Public Finance

We review the main issues in empirical public finance, the use of data and statistical methods to measure the impact of government policy on individuals and markets.

4 Budget Analysis and Deficit Financing

We delve into the complexity of budgetary issues that arise as governments consider their revenue and expenditure policies.

PART II Externalities and Public Goods

A major role of government is to address market failures caused by goods that have external costs and benefits or public benefits. In this part we discuss when the private market can and cannot solve these problems and the prospects for government success in addressing the problems.

5 Externalities: Problems and Solutions

When do externalities cause private markets to fail, and what tools does government have to combat this failure?

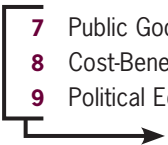
6 Externalities in Action: Environmental and Health Externalities

We use theoretical tools to examine examples of environmental and health externalities (such as acid rain, global warming, cigarette smoking, and obesity).

7 Public Goods

8 Cost-Benefit Analysis

9 Political Economy



Goods with public benefits may be underprovided by the private market, under conditions discussed in Chapter 7, but the public sector faces two key problems in providing those goods: measuring their costs and benefits (Chapter 8) and effectively translating voters' preferences for public projects into public policy (Chapter 9).

10 State and Local Government Expenditures

We discuss the local provision of public goods and the question of whether competition across localities can solve the problem of underprovision of public goods.

11 Education

We review the public finance issues involved in providing education, one of the most important public goods in the United States.

PART III Social Insurance and Redistribution

The increased nature and scope of government spending on social insurance programs is one of the most fundamental changes in U.S. public policy over the past fifty years.

12 Social Insurance: The New Function of Government

We examine the general theory of social insurance, highlighting the benefits (consumption smoothing) and costs (moral hazard) of insurance.

13 Social Security

14 Unemployment Insurance, Disability Insurance, and Workers' Compensation

We apply the principles of social insurance from Chapter 12 to the study of the nation's largest social insurance programs. We discuss the institutional features of these programs, their benefits and costs, and prospects for program reform.

15 Health Insurance I: Health Economics and Private Health Insurance

16 Health Insurance II: Medicare, Medicaid, and Health Care Reform

The largest and most rapidly growing government expenditure is on health care. We discuss the nature of health economics and the functioning of private health insurance markets, the role of the nation's two largest public health insurance programs, and the structure and impacts of the Affordable Care Act.

17 Income Distribution and Welfare Programs

We review the facts on income distribution in the United States, the theoretical and empirical effects of welfare policy, and the impacts of fundamental welfare reform.

PART IV Taxation in Theory and Practice

In this part we move from the study of government expenditures to the study of how the government raises revenue through taxation.

18 Taxation: How It Works and What It Means

We provide the institutional and theoretical bases for understanding tax policy and its effects, focusing in particular on the appropriate base for individual income taxation.

19 The Equity Implications of Taxation: Tax Incidence

20 Tax Inefficiencies and Their Implications for Optimal Taxation

Markets do not take taxes lying down. In these chapters, we discuss how market reactions affect both the equity implications of tax (tax incidence) and the efficiency costs of taxation. We use this theory to model the optimal design of taxes on goods and on income, and discuss evidence on the distribution of tax burdens.

21 Taxes on Labor Supply

22 Taxes on Savings

23 Taxes on Risk Taking and Wealth

In these chapters we explore the effect of income taxation on individual behavior and the resulting implications for tax policy. How do taxes affect labor supply, and what has been the effect of the Earned Income Tax Credit? How do taxes affect savings, and what has been the effect of tax-subsidized retirement savings? How do taxes affect the distribution of asset holdings, and what has been the effect of the capital gains, estate, and property taxes?

24 Taxation of Business Income

We discuss the structure of the corporate income tax and its implications for a firm's investment and financing decisions.

25 Fundamental Tax Reform and Consumption Taxation

Fundamental tax reform in the United States focuses on moving to a low-rate, broad-based tax system. We discuss the benefits of this reform, the political and economic barriers it faces, and possible reforms such as a consumption or flat tax.

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Dr. Gruber received his B.S. in Economics from MIT and his Ph.D. in Economics from Harvard University. Dr. Gruber's research focuses on the areas of public finance and health economics. He has published more than 150 research articles, has edited six research volumes, and is the author of *Health Care Reform*, a graphic novel. In 2006, he received the American Society of Health Economists Inaugural Medal for the best health economist in the nation aged 40 and under.

During the 1997–1998 academic year, Dr. Gruber was on leave as Deputy Assistant Secretary for Economic Policy at the Treasury Department. From 2003 to 2006, he was a key architect of the ambitious health reform effort in Massachusetts and in 2006 became an inaugural member of the Health Connector Board, the main implementing body for that effort. In 2009–2010, he served as a technical consultant to the Obama Administration and worked with both the Administration and Congress to help craft the Patient Protection and Affordable Care Act. In 2011, he was named “One of the Top 25 Most Innovative and Practical Thinkers of Our Time” by the online magazine *Slate*. In both 2006 and 2012, he was rated one of the top 100 most powerful people in health care in the United States by *Modern Healthcare* magazine.



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