

财政学（第8版）

（美）Harvey S. Rosen Ted Gayer 著

Public Finance (Eighth Edition)



Ministry of Education, Culture, Sports, Science and Technology

財政学 (Finance)

1. The government of Japan is considering a new tax policy.

2. The government of Japan is considering a new tax policy.



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出 版 说 明

为了适应经济全球化的发展趋势,满足国内广大读者了解、学习和借鉴国外先进经济管理理论和管理经验的需要,清华大学出版社与国外著名出版公司 McGraw-hill 教育出版集团合作影印出版了一系列商科英文版教材。鉴于大部分外版教材篇幅过长,且其中部分内容与我国的教学需要不符,我们请专家学者结合国内教学的实际要求,对所选图书进行了必要的删节。我们所选择的图书,基本上是在国外深受欢迎并被广泛采用的优秀教材的缩减版,其主教材均是该领域中较具权威性的经典之作。在选书和删节的过程中,我们得到了很多专家、学者的支持、帮助和鼓励,在此表示谢意!

由于原作者所处国家的政治、经济和文化背景等与我国不同,对书中所持观点,敬请广大读者在阅读过程中注意加以分析和鉴别。

我们期望这套影印书的出版对我国经济管理科学的发展能有所帮助,对我国商科的教学,尤其是商学本科的教学能有所促进。

欢迎广大读者给我们提出宝贵的意见和建议;同时也欢迎有关专业人士向我们推荐您所接触到的国外优秀图书。

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引 言

中国的学生要不要使用英文版的教材，一直有争议。有人认为，我们应该使用自己编写的教材，这样才能更准确地反映我们在课堂上所要表述的观点。用国外的原版教材，有些隔靴搔痒，不能解决中国的实际问题。持不同意见的观点认为，尽管各国在管理体制上有意识、制度、文化等差异，但管理本身是在国际环境下具有共同性的问题。特别是，中国的企业在经济全球化的环境下，需要更多地了解国外的管理理论与现状。在这种情况下，就需要引进一些外版的教材。一则，用于满足我们教学的部分需求；二则，更好地了解外版教材的教学服务体系；三则，为我们的师生创造英语教学的环境。

在进行 2004 年本科教指委的工作规划时，我曾特别谈及，要加强对本科教育中教书“育人”、服务于学生的使命的认识，继续优化专业课程设计，扩大精品课程建设，增加专业导向课程，尤其要加强对国际商科与经济管理学科教学进展的研究，并引进最新的教学成果，包括教材及教学资源。这一切都是为了更好地为国家与社会培养更好的人才。

为此，清华大学出版社与美国麦格劳-希尔教育出版公司的合作，引进出版这套“精编版”的英文工商管理教材，也是体现这一理念。这套教材吸收国际最新教学成果，提供全方位的教学资源，并借助英语的语言媒介，将会大力提升与发展中国工商管理教学水平，提高学生使用英语语言和网络手段获得长久的终生学习的能力和兴趣，进而提高我国工商界的国际竞争力。这是一件具有重大意义的工作。

讲到美国麦格劳-希尔教育出版公司，就要提到该公司的中国首席代表姜峰先生。我同他认识已经多年了。1995 年，他供职西蒙与舒斯特公司北京代表处。从那时起，他便开始来学校拜访，打破我们出版社坐等教师上门的惯例。他这种服务教学的理念就是直接同我们的教师见面，为教师提供教学资源，从早期的印刷版图书到磁盘、光盘，到在线资源、在线系统。这些年，姜峰先生尽管已经换到目前的公司工作，但他始终坚持着这一服务教学的理念，认真实践着他的教育出版观。

在同姜峰先生讨论引进国际上在工商管理教学的最新成果时，基本上确定了引进本套教材及教学资源的基本格调，即对“国际最新教学成果”的几个共同认识：一是国际上教学技术的进展究竟走到了哪一步，我们就引进到哪一步。二是要注意教学技术的发展给教学及教材带来了的影响，我们要借鉴新的教学辅助手段。

最近几年，我在美国授课的过程中，注意到教学网络技术：CMS，课程管理系统。通过这个教学辅助系统，教师可以将所要讲授的课程内容简单地张贴到一个系统化的网页上，包括教

学演示文件 PPT、章节提要 (Lecture Notes)、在线阅读资料, 以及问答题、简答题还有课后大作业等, 还可以很简单地开设自己课程的在线论坛 BBS。学生在注册后, 便成为在线学生, 通过该平台与教师交互, 完成习题、在线提交作业, 在线考试, 自动出评测分析报告。这一切是以教师为中心, 完全解决了教师对于自己教学内容、以及对学生及教学过程的网络化数字化管理的问题, 并可多次复用、异地复用。这个在线学习系统 (BlackBoard, WebCT, eCollege) 等不同于国内各高校自己研发的以学籍管理或居于录像、课件的远程教学为中心的校园管理平台, 直接解决大学的核心问题: 即“大师”们对课程教学内容的管理问题, 成为对教师授课最好的在线数字化辅助支持平台。

2003 年 12 月底, 从姜峰先生处得知 BlackBoard 在中国落地, 便通过他与赛尔毕博公司接触, 很快决定在中国人民大学商学院引进该平台支持教学。2004 年的春季学期, 我商学院 247 位教师, 所有 364 门课程全面上线, 2000 多名学生在线注册学习, 引发了人大商学院一场真正意义上的“教学革命”。教师与学生实现了很好地沟通与互动, 学生之间也有了很好地学习谈论的天地。目前, 我商学院的经验, 已经成为赛尔毕博支持国内院校教学上线发展的典范, 成为 BlackBoard 在国内的示范教学网站。

课堂教学同网络平台结合之后, 又给教学带来了新的挑战, 也给教材和教材的出版商们带来了新的机遇。历史悠久的麦格劳-希尔教育出版公司积极适应这种挑战, 在商科及经管教材的出版上做了战略性的调整: 即将教材本身做“薄”, 出版一批新型的、跨媒介的教材: 将研讨性、探索性、展开式的学习内容放到网上, 将动态交互性的内容放到网上; 印刷版的教材从过去强调各章节内容全面, 呈现教学过程、学习环节, 转向到注重概念性及引导性, 展现学习的核心内容。同时, 他们将教材配套的教学资源做得更“全”, 将更多的内容上线后全面依托网络, 更加动态地呈现教学内容及教学过程; 并为不同的教学平台提供完全解决方案, 提供跨平台的不同版本的内容“子弹”。无论采用 BlackBoard 或 WebCT 等平台, 教师们都可以从出版商处获得标准的教学资源包, 为自己采用的教材轻松搭建课程网站, 实现教学的在线革命。

总之, 教学在革命, 教学的手段也在革命。我们要看到工商管理教学在国际上的各种变化, 努力跟上时代的发展变化, 使我们的学生真正获得国际水准的教育。为此, 我衷心地感谢这批教材的国外作者们, 正是他们不懈的教学实践, 为给我们学科的发展带来源源的活力; 同时感谢国内外的出版界的人们, 感谢他们对教材、教材市场的永恒的追求, 不断地帮助我们提升教学的水准; 衷心希望这批适应新的教学需要的国际最新教材的出版能抛砖引玉, 再次带动整个工商管理教育无论是本科、高职高专教学还是 MBA、EMBA 教学的发展。

子曰: “学而时习之, 不亦悦乎”。在这场教学革命中, 我们有更大的勇气面临新的教学的挑战, 将中国的工商管理教育推向世界一流的前列!

徐二明

2004 年金秋于北京



HARVEY S. ROSEN

Harvey S. Rosen is the John L. Weinberg Professor of Economics and Business Policy at Princeton University. Professor Rosen, a Fellow of the Econometric Society and a Research Associate of the National Bureau of Economic Research, is well known for his contributions to the fields of Public Finance, Labor Economics, and Applied Microeconomics. From 1989 to 1991, he served as Deputy Assistant Secretary (Tax Analysis) at the US Treasury. During a second stint in Washington from 2003 to 2005, he served on the President's Council of Economic Advisers, first as a Member and then as Chairman. In this capacity, he provided advice to the White House on a wide variety of policy issues, including tax reform, Social Security, health care, energy, the federal budget, and financial market regulation.



TED GAYER

Ted Gayer is an associate professor at Georgetown University's Public Policy Institute. He is also a visiting fellow at the Public Policy Institute of California and an adjunct scholar at the American Enterprise Institute. He has published research in environmental economics, regulation, health economics, and education policy. He was the recipient of an Alfred P. Sloan Doctoral Dissertation Fellowship, and from 1999 to 2001 he was a Robert Wood Johnson Scholar in Health Policy Research at the University of California, Berkeley. From 2003 to 2004, Professor Gayer served as a Senior Economist on the President's Council of Economic Advisers, where he worked primarily on environmental and regulatory policy. He is currently a member of the Environmental Protection Agency's Science Advisory Board.



A New Look at *Public Finance*

The British philosopher and mathematician Bertrand Russell wrote, “Change is one thing, progress is another.”

In this eighth edition, we have made many substantive changes that reflect the progress that has been made in the field of public finance. At the same time, we have been careful to stay focused on the central mission of the book—to explain as clearly as possible how the tools of economics can be used to analyze government expenditure and tax policies.

In some respects, the field of public finance is quite different than it was even just a few years ago. On the empirical side, there have been exciting applications of experimental and quasi-experimental techniques to measure the impact of public policies. On the theoretical side, the integration of the analysis of government spending and taxation with basic economic theory has improved.

This book incorporates these recent developments and along the way takes its readers to the frontiers of current research and policy. While the information presented is cutting edge and reflects the work of economists currently active in the field, our approach makes it accessible to undergraduates whose only prior exposure to economics is at the introductory level.

Each chapter of this eighth edition has something new. Rather than provide a long list of changes, we will instead highlight the major changes.

New Worlds to Explore

Empirical Focus

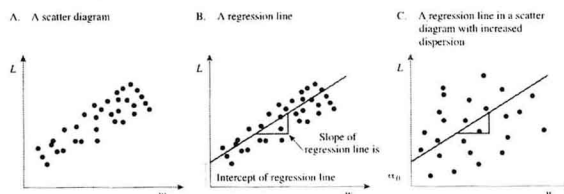
We have substantially rewritten Chapter 2 ("Tools of Positive Analysis") to include a description of recent innovations in empirical public finance. Further, we incorporate the lessons of Chapter 2 in our discussions of empirical evidence throughout the book. Our goal is to make sure that readers understand what constitutes credible empirical evidence of the effect of government programs and taxation.

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PART I Getting Started

Figure 2.1 Multiple regression analysis

Panel A shows there is a positive correlation between hours of work and after-tax wages. Panel B shows the regression line that fits through these data points, which yields an estimate of the magnitude of the relationship between the two variables. The estimated relationship between the two variables is more reliable in Panel B than in Panel C, because the data points in Panel C are more scattered.



Chapter Five

EXTERNALITIES

When men go happy, he is in harmony with himself and his environment.

—CONFUCIUS

As a by-product of their activities, paper mills produce the chemical dioxin. It forms when the chlorine used for bleaching wood pulp combines with a substance in the pulp. Once dioxin is released into the environment, it ends up in everyone's fat tissue and in the milk of nursing mothers. According to some scientists, dioxin is responsible for birth defects and cancer, among other health problems.

Economists often claim that markets allocate resources efficiently (see Chapter 3). Dioxin is the outcome of the operation of markets. Does this mean that having dioxin in the environment is efficient? To answer this question, it helps to begin by distinguishing different ways in which people can affect each other's welfare.

Suppose large numbers of suburbanites decide they want to live in an urban setting. As they move to the city, the price of urban land increases. Urban property owners are better off, but the welfare of tenants already there decreases. Merchants in the city benefit from increased demand for their products, while their suburban counterparts are worse off. By the time the economy settles into a new equilibrium, the distribution of real income has changed substantially.

In this migration example, all the effects are transmitted via changes in market prices. Suppose that before the change in tastes, the allocation of resources was Pareto efficient. The shifts in supply and demand curves change relative prices, but competition guarantees that these will be brought into equality with the relevant marginal rates of substitution. Thus, the fact that the behavior of some people affects the welfare of others does not necessarily cause market failure. As long as the effects are transmitted via prices, markets are efficient.¹

The dioxin case embodies a different type of interaction from the urban land example. The decrease in welfare of the dioxin victims is not a result of price changes. Rather, the output choices of the paper mill factories directly affect the welfare of the neighboring people. When the activity of one entity is person (or a firm) directly affects the welfare of another in a way that is outside the market mechanism, that effect is called an **externality** (because one entity directly affects the welfare of another entity that is "external" to the market). Unlike effects that are transmitted through market prices, externalities adversely affect economic efficiency.

externality

An activity of one entity that affects the welfare of another entity in a way that is outside the market mechanism.

¹ Of course, the same pattern of prices may be more or less desirable from a distributional point of view, depending on one's ethical judgments as embodied in the social welfare function. Effects on welfare that are transmitted via prices are sometimes referred to as *pecuniary externalities*. Malin (1971) argues convincingly that because such effects are part of the normal functioning of the market, they are a confounding distraction. It is a normative issue only for the size of government and its applied benefits.

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Expanded Externalities Coverage

We have included a greatly expanded chapter on externalities (Chapter 5), focusing more on incentive-based regulations, such as emission fees and cap-and-trade programs. This chapter also includes more examples of applications to environmental policy.

Externalities CHAPTER 5

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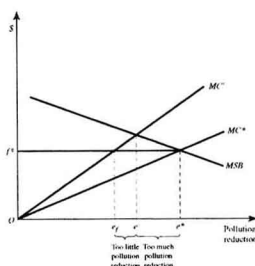


Figure 5.12 Cap-and-trade versus emissions fee when marginal social benefits are elastic and costs are uncertain. When marginal social benefits are elastic and costs are higher than expected, cap-and-trade achieves too much pollution reduction and an emissions fee achieves too little pollution reduction. However, an emissions fee is more efficient.

would set the fee at e^* in order to achieve a reduction of e^* . As before, if MC^* turns out to represent the true costs, then this outcome is efficient. Recall that with an emissions fee, the level of pollution (and thus pollution reduction) changes as the

Chapter Seven

EDUCATION

The foundation of a good state is the education of its youth.

The previous chapters have presented the approach that economists use to determine when government intervention is justified in the market economy. We now put this approach into action by applying it to the area of education. In addition to being an excellent case study for the application of the tools of public finance, education is of independent interest to us for no other reason than the enormous amount of money that governments spend on it. In the United States, the combined spending of local, state, and federal governments on elementary and secondary education exceeds \$471 billion (US Bureau of the Census, 2006b, p. 184).¹ As Table 7.1 indicates, since 1980, real per-pupil expenditures on elementary and secondary education have increased by about 68 percent. Nevertheless, for many years Americans have considered the nation's public schools to be operating at a substantial level (Phil-Deja Kappa College, 2005). These facts underscore the importance of carefully evaluating education policy using the public finance skills we have acquired.

Table 7.1 Real annual expenditures per pupil in public elementary and secondary schools (selected years)

School Year	Expenditure per Pupil (2004 dollars)
1980	\$4,917
1985	\$5,687
1990	\$6,740
1995	\$6,849
2000	\$7,574
2003	\$8,242
2004	\$9,248

Source: US Bureau of the Census (2006, p. 184).

Real per-pupil expenditures on elementary and secondary public education have increased by 68 percent since 1980.

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Figure 7.2 illustrates the changes in the amount of education spending across the various areas of government.

Education

Another large change is the inclusion of a chapter on education (Chapter 7). A stand-alone chapter on education presents a useful opportunity to apply the economic tools covered in previous chapters to this very important issue.

Chapter Nine

THE HEALTH CARE MARKET

For all treatments, we must confront the rising cost of care, strengthen the doctor-patient relationship, and help people afford the services; otherwise, they will die.

I don't pretend to have all the answers, but I am absolutely sure that this is a problem that America cannot let go.

—BERNARD H. BEIGER, M.D., M.P.H.

▶ WHAT'S SPECIAL ABOUT HEALTH CARE?

As the quotes from President Bush and Clinton special place on the public policy agenda, the health care industry. Health care, of course, is a critical and MPPI players because receiving it can't be done on their own. Health care is also critical for our children: private markets are a good way to

Another reason why health care commands so much attention is the enormous costs it incurs. The rapid growth in US health expenditures as a percent of GDP has been a major concern for many years. In 2004, health care expenditures were 16 percent of GDP, up from 14 percent in 1990.

But by itself, the fact that health care costs so much doesn't mean that there is a problem. I say players have also grown dramatically in recent years. Indeed, Nobel laureate Robert Fogel's of global income spent on health care is expected to be \$1.5 trillion by 2020, up from \$1.2 trillion in 2000. So what unique attributes of health care might this market?

The Role of Insurance

To understand the unique aspects of the health care market, we need to understand the role of insurance. Understanding

Chapter Ten

GOVERNMENT AND THE MARKET FOR HEALTH CARE

The health of the people is really the foundation upon which all their happiness and all their power as a state depend.

—BERNARD H. BEIGER, M.D., M.P.H.

In Chapter 9 we applied the theory of welfare economics to health care markets and saw the various ways that a free market can lead to inefficient or inequitable outcomes. Given this background, we are now ready to discuss the key features of the US health care market and the government's intervention in this market.

The US health care industry is massive. It includes hospitals, nursing homes, doctors, nurses, and dentists, as well as producers of eyeglasses, prescription and nonprescription drugs, artificial limbs, and other equipment. It employs about 12 million people and accounts for about \$1.7 trillion in annual expenditures, which is 16 percent of GDP.

Figure 10.1 shows how this money is spent. The two largest categories by far are hospitals (12 percent) and physician and clinical services (12 percent). Figure 10.2 shows the sources of health care financing. Consumers pay only 13 percent of health expenses out of pocket. The rest is paid for by third parties: private health insurance and other private sources (such as philanthropy) pay for 42 percent and the government pays for 45 percent (primarily through the Medicare and Medicaid programs, which are described later in this chapter). The payments from private insurance companies and from government come from premiums paid by consumers and revenue collected from taxpayers, respectively. Nevertheless, these still count as third-party payments because at the time of purchase, consumers do not directly face the full cost of their health services.

In 2004, approximately 84 percent of the US population had some form of insurance coverage. Approximately 68 percent of the population had private health insurance, and over 27 percent had government health insurance, consisting primarily of Medicare and Medicaid. Some people receive insurance coverage from multiple sources. We now examine the private and government health insurance markets in turn.

▶ PRIVATE HEALTH INSURANCE

An important peculiarity of private insurance in the United States is that most of it—about 91 percent for those under 65—is provided through employers as a benefit to their employees.

Health Care

Health care is an ever more prominent item on the economic policy agenda, so we have added an additional chapter on this topic. The first health care chapter (Chapter 9) now includes a detailed explanation of insurance markets and how private insurance markets can fail to achieve efficiency or equity. The discussion presents justifications for social insurance programs, with a specific focus on health insurance. The second health care chapter (Chapter 10) provides an in-depth discussion of government's role in the health care market.

Current Issues

Throughout the text readers will find the latest findings in the literature applied to the analysis of new policies and policy proposals. For example, we have significantly expanded the chapter on Social Security (Chapter 11), with particular emphasis on various reform proposals.

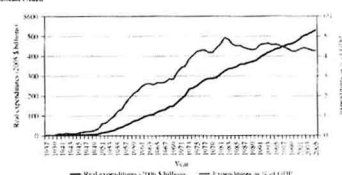
Chapter Eleven

SOCIAL SECURITY

Will you still need me, will you still feed me, when I'm sixties?
—BEN LEEVIN AND PAUL MCGATHEY

In his 1999 State of the Union Address, President Bill Clinton said, "I reach out my hand to all of you in both parties and ask that we join together in saying to the American people: We will save Social Security now." Six years later, Clinton's successor, President George W. Bush, used another State of the Union speech to make the same plea: "We must join together to strengthen and save Social Security." Clearly, both Democrats and Republicans regard Social Security as being critically important. Indeed, it is the largest single domestic spending program. Figure 11.1 shows Social Security's growth, both in real dollars and as a share of Gross Domestic Product (GDP). In 2005, the program cost \$530 billion, or 4.25 percent of GDP. The other point that emerges from both Presidents' statements is that Social Security appears to be in trouble. This chapter describes the workings of Social Security and the challenges that it faces.

Figure 11.1 Social Security expenditures 1997–2005
Social Security is the largest US domestic program. In 2005, Social Security expenditures were approximately \$530 billion or about 4.25 percent of Gross Domestic Product.



Source: Social Security Trustees (2006)

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Part Two

PUBLIC EXPENDITURE: PUBLIC GOODS AND EXTERNALITIES

The theory of welfare economics focused our attention on market failure and distributional considerations as reasons for considering government intervention. The chapters in this section examine government policy, specifically with respect to public goods. Chapter 4 introduces public goods. Chapter 5 has special emphasis on environmental issues. In Chapter 6, we discuss how political institutions are likely to respond to efficiency-enhancing policies derived in Chapter 3. This part concludes with Chapter 8, a theory-based set of practical rules for evaluating

Part Three

PUBLIC EXPENDITURE: SOCIAL INSURANCE AND INCOME MAINTENANCE

Programs that provide various types of insurance comprise a large and growing share of the government budget. In this part of the book, we use the framework of welfare economics to study these programs, which are collectively referred to as social insurance. Chapter 9 uses the specific example of health care to illustrate how insurance markets work and why they may fail to generate efficient and fair outcomes. Chapter 10 then discusses and evaluates the role that government plays in health insurance markets. Chapter 11 deals with Social Security, a program for retirees that provides (among other things) insurance against the possibility that people may use up their resources before they die. To some extent, government programs that redistribute income are also a form of insurance—they protect people against the risk of living in abject poverty. Chapter 12 uses the theory of welfare economics to discuss the conceptual basis for income redistribution, and Chapter 13 analyzes the major antipoverty programs in the United States.

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Organization

The most significant change to the organization of the book is the division of the part on public expenditures into two parts: one on public goods and externalities, and the other on social insurance and income maintenance. The motivation for this change is the increasing government role in providing social insurance. We now present more material on the fundamental economics of insurance and the pros and cons of government involvement in insurance markets.

New Ways to Learn

EMPIRICAL EVIDENCE

The Effect of Air Pollution on Housing Values

Using regression analysis, a researcher can estimate the correlation between air quality and housing prices, holding all other measured characteristics constant. However, it is difficult to establish whether this is a causal relationship because other unmeasured characteristics could affect both air quality and housing prices. For example, highly industrialized neighborhoods might have lower housing prices because they are usually less attractive and also have lower air quality, but this does not mean that air quality causes the lower prices.

Chay and Greenstone (2005) analyze a quasi-experiment to estimate the causal relationship between TSPs and the mean housing values in a county. For their analysis, they rely on legislation in the 1970s that set a limit on TSP emissions. Counties that were above this limit were subject to strict regulation, while those below the limit (no matter how close) were not subject to the same strict regulations. In effect, then, the counties above the limit were the treatment group and those below the limit were the control group. Chay and Greenstone (2005) found that the counties in the treatment group experienced a large drop in TSPs due to the regulations, which led to an increase in housing prices. According to their estimates, the improvements in air quality stemming from the regulation led to a \$45 billion aggregate increase in housing values between 1970 and 1980.

POLICY PERSPECTIVE

Owner-Occupied Housing

Through a variety of provisions in the US federal income tax code, owner-occupied housing receives a substantial subsidy. (These provisions are detailed in Chapter 17.) This subsidy is currently worth over \$114 billion annually (Joint Committee on Taxation, 2006, p. 33). Can this subsidy be justified? Arguments usually boil down to an assertion that homeownership creates positive externalities. Homeowners take good care of their property and keep it clean, which makes their neighbors better off; hence, the externality. In addition, homeownership provides an individual with a stake in the nation. This increases social stability, another desirable spillover effect.

Careful maintenance of property certainly creates positive externalities, and homeowners are more likely than renters to take care of their property, to garden, and so on (Glaiser and Shapiro, 2002). But is it homeownership as such that induces this desirable behavior? The beneficial side effects associated with homeownership might just as well be a consequence of the fact that the 66 percent of American families who are homeowners tend to have relatively high incomes. (The median income of homeowners is almost twice that of renters.) Neither is there any evidence that low ownership rates necessarily contribute to social instability. In Switzerland, a nation not known for its revolutionary tendencies, less than a third of the dwellings are owner occupied.

Of course, even if the subsidy does not contribute to correcting an inefficiency, it might be justifiable on equity grounds. But as just noted, homeowners tend to have higher incomes than renters. Thus, only if the distributional objective is to increase income inequality does a subsidy for homeownership make sense from this standpoint.

Text Boxes

Traditional text boxes can disrupt the flow of a book, causing many students simply to skip them. Therefore, we have introduced “partial” text boxes that are integrated into the text both substantively and visually. This allows for content elaboration without sending a signal that it is separate from the rest of the text.

“Empirical Evidence”: These boxes draw on the material discussed in Chapter 2 to discuss the specific studies used to estimate the effects of the policies cited in the text.

“Policy Perspective”: These boxes provide details on recent or proposed policies that aim to address the issues discussed in the text. Like the “Empirical Evidence” boxes, these flow uninterrupted in the text, using a fade-in bar for delineation.

Expanded End-of-Chapter Material

As in previous editions, each chapter ends with a bullet point summary of key concepts, as well as a set of discussion questions. The Eighth Edition also includes many new discussion questions. Some of them are computational in nature, and others give students the opportunity to apply the material to current public policy controversies.

Summary

- US health care spending amounts to \$1.7 trillion per year, which is 15 percent of Gross Domestic Product.
- Consumers pay only 13 percent of health expenses out of pocket. Private insurance and private sources pay 42 percent, and government pays 46 percent. Approximately 84 percent of the US population has some form of health insurance.
- Most private medical insurance in the United States is provided through employers as a benefit to the employees.
- Under federal tax law, employer-provided health insurance is not subject to taxation. This provision an implicit subsidy (worth about \$126 billion per year in foregone tax revenues) for health insurance.
- The advantage of employer-provided health insurance rather than individual coverage is that it may increase the risk pool, reduce adverse selection, and lower administrative costs.

major components of the system are hospital insurance (HI) and supplementary medical insurance (SMI), which pays for physicians and associated medical care.

- HI is financed by a payroll tax on the earnings of current workers at a rate of 1.45 percent on employers and employees each. SMI is financed out of general revenues. If current trends continue, Medicare expenditures are soon likely to outpace revenues.
- A prescription drug benefit was added to Medicare starting in 2006.
- Over the years, the government has attempted to control Medicare costs by switching from a retrospective to a prospective payment system and by introducing managed care to Medicare.
- The Medicare program has not improved the health status of the elderly very much, but it has led to significant benefits in the form of reducing the risk of facing major reductions in consumption due to medical expenses.

• Although our focus has been primarily on health care expenditures, what we ultimately care about is people's health. The two are linked, although the statistical evidence on this matter is more tenuous than one might guess. Many commentators have argued that more spending on medical services in developed countries is unlikely to improve health, or at least the mortality rate. Lifestyle considerations such as smoking, diet, and exercise may be more important (Fuchs, 2000).

Key Terms

While we keep the end-of-book glossary from previous editions, a new feature is the inclusion of the definitions of key terms in the margins of the text. This allows readers to obtain brief definitions of these terms without interrupting the flow of their reading.

free rider

The incentive to let other people pay for a public good while you enjoy the benefits

perfect price discrimination

When a producer charges each person the maximum he or she is willing to pay for the good.

However, people may have incentives to hide their true preferences for a public good. Adam may falsely claim that fireworks mean nothing to him. If he can get Eve to foot the entire bill, he can still enjoy the show and yet have more money to spend on apples and fig leaves. Someone who lets other people pay while enjoying the benefits himself is known as a **free rider**. Of course, Eve also would like to be a free rider. Hence, the market may fall short of providing the efficient amount of the public good. No automatic tendency exists for markets to reach the efficient allocation in Figure 4.4.

Even if consumption is excludable, market provision of a nonrival good is likely to be inefficient. Suppose now that the fireworks display is excludable; people can not see the show without purchasing an admission ticket to a very large coliseum. A profit-maximizing entrepreneur sells tickets. For a fireworks display of a particular size, the additional cost of another person viewing it is zero (because the display is nonrival). Efficiency requires that every person be admitted who values the display at more than zero; that is, people should be admitted as long as the benefit to them exceeds the incremental cost of zero. Hence, efficiency requires a price of zero. But if the entrepreneur charges everyone a price of zero, then she cannot stay in business.

Is there a way out? Suppose the following two conditions hold: (1) the entrepreneur knows each person's demand curve for the public good; and (2) it is difficult or impossible to transfer the good from one person to another. Under these two conditions, the entrepreneur could charge each person an individual price based on willingness to pay, a procedure known as **perfect price discrimination**. People who valued the rocket display at only a penny would pay exactly that amount; even they would not be excluded. Thus, everyone who put any positive value on the show would attend, which is an efficient outcome.⁹ However, because those who valued the display a lot would pay a very high price, the entrepreneur would be able to stay in business.

Perfect price discrimination may seem to be the solution until we recall that the first condition requires knowledge of everybody's preferences. But if individuals' demand curves were known, there would be no problem in determining the optimum provision in the first place.¹⁰ We conclude that even if a nonrival commodity is excludable, private provision is likely to lead to efficiency problems.

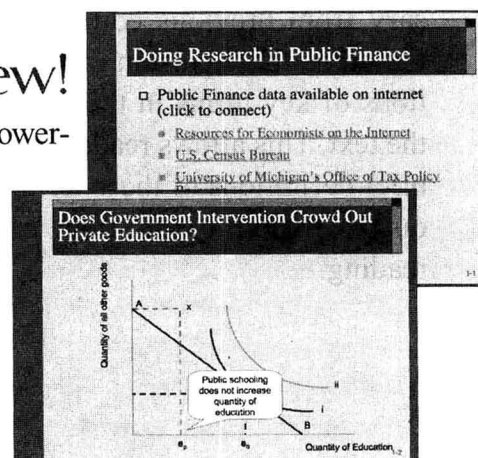
Captions

We have included brief, easy-to-understand captions for all tables and figures.

Up-to-date Tools and Supplements

Animated PowerPoint Slides—New!

The Eighth Edition includes new, in-depth, comprehensive PowerPoint slides with animated graphs and figures that appear as if drawn line-by-line to clarify difficult concepts for students. Many chapter presentations also include hypertext links to sub-component slides and data sources, allowing the instructor the flexibility to pursue certain topics further in a presentation while spending less time on others.



Test Bank

Public Finance has been known for its strong, rigorous test bank questions, and the Eighth Edition continues this tradition. The test bank has been expertly updated to reflect the cutting-edge changes in the text, and the optional computerized format is perfect for generating custom exams and quizzes.

Instructor's Manual

Like the test bank, the instructor's manual has been updated in both content and structure for superb content correlation and for ease of use.

Instructor's Resource CD

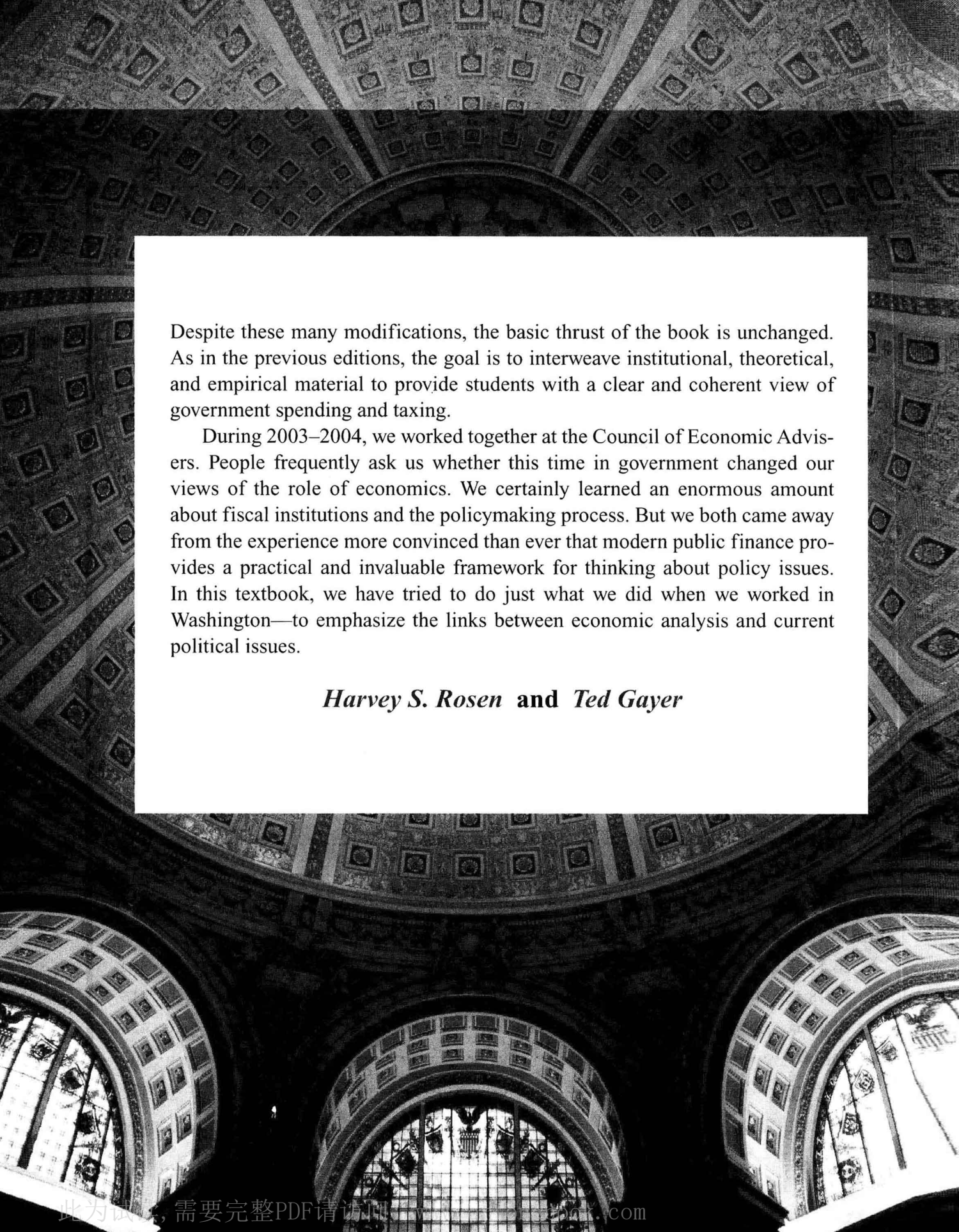
ISBN: 0073272302

The IRCD includes the PowerPoint slides, the Test Bank, and the Instructor's manual, all in one convenient place. It also contains a convenient digital image library of all the figures in the text, essential for customizing class multimedia presentations.

Online Learning Center

www.mhhe.com/economics/rosen8e

In the Online Learning Center, students can access PowerPoint slides and interesting web links, while instructors can also access a downloadable version of the Instructor's Manual and link to resources like PageOut.



Despite these many modifications, the basic thrust of the book is unchanged. As in the previous editions, the goal is to interweave institutional, theoretical, and empirical material to provide students with a clear and coherent view of government spending and taxing.

During 2003–2004, we worked together at the Council of Economic Advisers. People frequently ask us whether this time in government changed our views of the role of economics. We certainly learned an enormous amount about fiscal institutions and the policymaking process. But we both came away from the experience more convinced than ever that modern public finance provides a practical and invaluable framework for thinking about policy issues. In this textbook, we have tried to do just what we did when we worked in Washington—to emphasize the links between economic analysis and current political issues.

Harvey S. Rosen and Ted Gayer