CONTENTS OF THE HANDBOOK

VOLUME I

Editors' Introduction

Chapter 1

A Brief History of Fiscal Doctrine R.A. MUSGRAVE

Chapter 2

The Theory of Excess Burden and Optimal Taxation ALAN J. AUERBACH

Chapter 3

Public Sector Pricing DIETER BÖS

Chapter 4

Taxes and Labor Supply JERRY A. HAUSMAN

Chapter 5

The Effects of Taxation on Savings and Risk Taking AGNAR SANDMO

Chapter 6

Tax Policy in Open Economies AVINASH DIXIT

Chapter 7

Housing Subsidies: Effects on Housing Decisions, Efficiency, and Equity HARVEY S. ROSEN

Chapter 8

The Taxation of Natural Resources TERRY HEAPS and JOHN F. HELLIWELL

VOLUME II

Chapter 9

Theory of Public Goods WILLIAM H. OAKLAND

Chapter 10

Incentives and the Allocation of Public Goods JEAN-JACQUES LAFFONT

Chapter 11

The Economics of the Local Public Sector DANIEL RUBINFELD

Chapter 12

Markets, Government, and the "New" Political Economy ROBERT INMAN

Chapter 13

Income Maintenance and Social Insurance ANTHONY B. ATKINSON

Chapter 14

The Theory of Cost-Benefit Analysis JEAN DREZE and NICHOLAS STERN

Chapter 15

Pareto Efficient and Optimal Taxation and the New New Welfare Economics JOSEPH STIGLITZ

Chapter 16

Tax Incidence LAURENCE KOTLIKOFF and LAWRENCE SUMMERS

CONTENTS OF VOLUME II

Introdu	action to the Series	v
Conter	its of the Handbook	vii
Editors' Introduction		xv
Chapter	9	
Theory	of Public Goods	
WILLIA	M H. OAKLAND	485
1.	Introduction	485
2.	Pure public goods	486
3.	Generalizations	491
	3.1. Negative benefits	492
	3.2. Public intermediate goods	493
	3.3. Distortionary taxation	495
	3.4. Externalities	496
	3.5. Congestion	499
	3.6. Club goods and local public goods	502
4.	Private provision of public goods	509
	4.1. No exclusion, small number of participants	509
	4.2. No exclusion, large number of participants	514
	4.3. Exclusion possible, large number of participants	515
	4.4. Exclusion possible, single seller	518
5.	Public sector provision of public goods	522
	5.1. Pigouvian taxes and subsidies	522
	5.2. Information	524
	5.3. Behavior of public officials	530
6.	Directions for further research	533
Re	ferences	533
Chapter		
Incent	ives and the Allocation of Public Goods	
JEAN-J	ACQUES LAFFONT	537
1.	Introduction	537
2.	Implementation	538
	2.1. Dominant equilibrium: $c = d$	540
	2.2. Bayesian-Nash equilibrium	540
	2.3 Maximin equilibrium: $c = nt$	54

X Contents of Volume II

	2.4. Nash equilibrium: $c \equiv n$	541
	2.5. Local dominant equilibrium	543
3.	The Gibbard-Satterthwaite theorem	545
4.	Public goods only; positional dictators	550
5.	The differential approach	551
6.	The Clarke-Groves-Vickrey mechanisms	554
7.	Weakening incentives requirements	559
8.	Planning procedures	561
	8.1. Local dominant equilibrium	561
	8.2. Local maximin equilibrium	566
9.	Conclusion	567
Ref	erences	567
Chapter		
	conomics of the Local Public Sector	~=
DANIE	L L. RUBINFELD	57
1.	Introduction	57
2.	Community formation and group choice	574
	2.1. A starting point – the theory of clubs	57
	2.2. Optimum club size with congestion	58
3.	The Tiebout model	58
	3.1. Allocating individuals with different incomes	58
	3.2. The property tax	58.
	3.3. Production inefficiencies in the Tiebout model	58:
	3.4. Will an equilibrium exist?	58
	3.5. Capitalization of public spending and taxes in a Tiebout framework	59
	3.6. The efficiency of the Tiebout model with capitalization	59
	3.7. Testing the Tiebout model	59
4.	Empirical determination of the demand for local public goods	60
	4.1. Introduction	60
	4.2. Empirical issues	60
	4.3. Some additional empirical issues	60
	4.4. Estimating demand functions in a Tiebout world	61
5.	Applications of the demand approach	61
	5.1. Alternative methods for estimating the demand for local public goods	61
	5.2. Will the median level of services provided be efficient?	62
6.	Fiscal federalism	62
	6.1. The responsibilities of local government	62
	6.2. The role of grants in a federalist system	63
7.	Conclusions	63
Ref	erences	63

Contents of	f Vol	lume	II
-------------	-------	------	----

v	

Markets, Governments, and the "New" Political Economy ROBERT P. INMAN 1. Introduction 2. Market failures and the role of government 2.1. The minimal role of government 2.2. Beyond the minimal state: When markets fail 2.3. Market failures as a Prisoner's Dilemma: The potential case for government 2.4. Summary 3. The search for efficient government 3.1. Collective action as voluntary exchange 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 3.3. Dictatorial processes: The dictator as a benevolent planner 3.4. Democratic processes 3.5. Summary 4. Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments Addendum References 769
1. Introduction 647 2. Market failures and the role of government 649 2.1. The minimal role of government 650 2.2. Beyond the minimal state: When markets fail 653 2.3. Market failures as a Prisoner's Dilemma: The potential case for government 663 2.4. Summary 672 3. The search for efficient government 672 3.1. Collective action as voluntary exchange 674 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 681 3.3. Dictatorial processes: The dictator as a benevolent planner 692 3.4. Democratic processes 703 3.5. Summary 738 4. Public policies for the public sector 739 4.1. On designing policies for government reform 740 4.2. An example: Constitutional limitations for government efficiency 743 4.3. Summary 753 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
1. Introduction6472. Market failures and the role of government6492.1. The minimal role of government6502.2. Beyond the minimal state: When markets fail6532.3. Market failures as a Prisoner's Dilemma: The potential case for government6632.4. Summary6723. The search for efficient government6723.1. Collective action as voluntary exchange6743.2. Coercive mechanisms of collective choice: Democracy vs. efficiency6813.3. Dictatorial processes: The dictator as a benevolent planner6923.4. Democratic processes7033.5. Summary7384. Public policies for the public sector7394.1. On designing policies for government reform7404.2. An example: Constitutional limitations for government efficiency7434.3. Summary7535. Conclusion: Drawing the borderline between markets and governments753Addendum765
 Market failures and the role of government 2.1. The minimal role of government 2.2. Beyond the minimal state: When markets fail 2.3. Market failures as a Prisoner's Dilemma: The potential case for government 2.4. Summary 3. The search for efficient government 3.1. Collective action as voluntary exchange 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 3.3. Dictatorial processes: The dictator as a benevolent planner 3.4. Democratic processes 3.5. Summary Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum
2.1. The minimal role of government 2.2. Beyond the minimal state: When markets fail 2.3. Market failures as a Prisoner's Dilemma: The potential case for government 2.4. Summary 3. The search for efficient government 3.1. Collective action as voluntary exchange 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 3.3. Dictatorial processes: The dictator as a benevolent planner 3.4. Democratic processes 3.5. Summary 4. Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments Addendum 753 Addendum
2.2. Beyond the minimal state: When markets fail 2.3. Market failures as a Prisoner's Dilemma: The potential case for government 2.4. Summary 672 3. The search for efficient government 3.1. Collective action as voluntary exchange 674 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 681 3.3. Dictatorial processes: The dictator as a benevolent planner 692 3.4. Democratic processes 703 3.5. Summary 738 4. Public policies for the public sector 4.1. On designing policies for government reform 740 4.2. An example: Constitutional limitations for government efficiency 743 4.3. Summary 753 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
2.3. Market failures as a Prisoner's Dilemma: The potential case for government 2.4. Summary 3. The search for efficient government 3.1. Collective action as voluntary exchange 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 3.3. Dictatorial processes: The dictator as a benevolent planner 3.4. Democratic processes 3.5. Summary 4. Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
2.4. Summary 3. The search for efficient government 3.1. Collective action as voluntary exchange 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 3.3. Dictatorial processes: The dictator as a benevolent planner 3.4. Democratic processes 3.5. Summary 4. Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments Addendum 672 672 673 674 675 675
3. The search for efficient government 3.1. Collective action as voluntary exchange 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 3.3. Dictatorial processes: The dictator as a benevolent planner 692 3.4. Democratic processes 703 3.5. Summary 738 4. Public policies for the public sector 4.1. On designing policies for government reform 740 4.2. An example: Constitutional limitations for government efficiency 743 4.3. Summary 753 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
3.1. Collective action as voluntary exchange 3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 681 3.3. Dictatorial processes: The dictator as a benevolent planner 692 3.4. Democratic processes 703 3.5. Summary 738 4. Public policies for the public sector 739 4.1. On designing policies for government reform 740 4.2. An example: Constitutional limitations for government efficiency 743 4.3. Summary 753 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
3.2. Coercive mechanisms of collective choice: Democracy vs. efficiency 3.3. Dictatorial processes: The dictator as a benevolent planner 692 3.4. Democratic processes 703 3.5. Summary 738 4. Public policies for the public sector 739 4.1. On designing policies for government reform 740 4.2. An example: Constitutional limitations for government efficiency 743 4.3. Summary 753 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
3.3. Dictatorial processes: The dictator as a benevolent planner 3.4. Democratic processes 703 3.5. Summary 738 4. Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 753 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum
3.4. Democratic processes 3.5. Summary 4. Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum
3.5. Summary 4. Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum
 4. Public policies for the public sector 4.1. On designing policies for government reform 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
4.1. On designing policies for government reform 740 4.2. An example: Constitutional limitations for government efficiency 743 4.3. Summary 753 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
 4.2. An example: Constitutional limitations for government efficiency 4.3. Summary 5. Conclusion: Drawing the borderline between markets and governments Addendum 753 Addendum
4.3. Summary 753 5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
5. Conclusion: Drawing the borderline between markets and governments 753 Addendum 765
and governments 753 Addendum 765
Addendum 765
References 769
Chapter 13
Income Maintenance and Social Insurance
A.B. ATKINSON 779
1. Introduction 779
2. Objectives 785
2.1. Income support and the abolition of poverty 785
2.2. Measurement of poverty 789
2.3. Welfare economics and social welfare functions 791
2.4. Concluding comment 795
3. The design of state income maintenance 795
3.1. A simple model 795
3.2. Income support – individualistic preferences 799
3.3. Ethical preferences 803
3.4. Social insurance and intertemporal allocation 807
3.5. The form of income support 811
3.6. Concluding comment 815

xii	Contents of Volu	ume II

4.	The impact in practice	815
	4.1. Complex budget constraints	815
	4.2. Non-receipt of benefits	820
	4.3. Benefits, taxes, and poverty	822
	4.4. Overall redistributive effect	826
	4.5. Political economy of income support	829
	4.6. Concluding comment	833
5.	Effects on economic behaviour	833
	5.1. Income support and its effect on retirement decisions	834
	5.2. Disability benefits and participation	847
	5.3. Unemployment insurance and work decisions	851
	5.4. The take-up of welfare/public assistance	865
	5.5. Income support and family formation	868
	5.6. Pensions and savings	869
	5.7. Concluding comments	880
6.	Reforms and simulation of their implications	880
	6.1. Specification of effects of reforms and hypothetical examples	881
	6.2. Modelling using representative samples	883
	6.3. Incorporation of changes in behaviour	884
	6.4. General equilibrium effects	881
7.	Envoi	889
Re	ferences	889
Chapter	14	
The T	heory of Cost-Benefit Analysis	
JEAN I	DRÈZE AND NICHOLAS STERN	909
1.	Basic principles	909
	1.1. Introduction	90
	1.2. Project evaluation, cost–benefit analysis, and shadow prices	910
	1.3. The basic theory of shadow prices	91:
	1.4. Shadow prices and optimal public production	91
	1.5. Cost-benefit analysis and the theory of reform	91
2.	Lessons from second-best theory	920
	2.1. The model	92
	2.2. General properties of the model	92
	2.3. Some important second-best theorems	93
	2.4. Shadow prices in distorted economies	94
	2.5. Conclusion	95
3.	Selected applications of the theory	95
٠,	3.1. Introduction	95
	3.2. The distribution of welfare	95
	3.3 Traded and non-traded goods	96

Contents o	of Volume II	xiii
	3.4. Shadow wages	964
	3.5. Numeraires, discount rates, and foreign exchange	967
	3.6. Private projects and Boiteux firms	976
	3.7. Uncertainty and time	977
	3.8. Some neglected issues	980
4.	Summary and conclusions	982
Re	ferences	985
Chapter		
Pareto	Efficient and Optimal Taxation and the New New Welfare Eco	onomics
JOSEPH	HE. STIGLITZ	991
1.	Introduction	991
	Part I: One-commodity neoclassical models	993
2.	The basic model	993
	2.1. Optimal lump-sum taxes	994
	2.2. Imperfect information	996
	2.3. Implementing the optimal allocations by means of a tax structure	1002
	2.4. The optimal tax structure with $\lambda_2 > 0$, $\lambda_1 = 0$	1003
	2.5. The optimal tax structure with $\lambda_1 > 0$, $\lambda_2 > 0$	1005
	2.6. Equity-efficiency trade-offs	1006
3.	Continuum of individuals	1006
4.	Some mathematical problems	1008
	4.1. Non-differentiability	1009
	4.2. Discontinuities	1011
5.	Generalizations: Random taxation	1011
6.	Limitations: Restricted taxation	1014
7.	Limitations: The push-pin versus poetry controversy	1017
8.	Limitations: General equilibrium effects of taxation	1019
9.	Other limitations on the general model	1023
10.	Numerical calculations	1022
	Part II: Pareto efficient taxation with many commodities and	
	many periods	1023
11.	Alternative tax bases	1023
	11.1. Formal analysis	1024
	11.2. Ramsey versus Atkinson-Stiglitz Pareto efficient taxation	1020
	11.3. Redistributive commodity taxes with optimal linear income taxes	102
	11.4. Other forms of restricted taxation	1029
12.	Implications for capital taxation	1030
	12.1. Overlapping generations models	103
	12.2. Infinitely lived individuals	103
13.	Imperfect capital markets	103
14.	Altruism and inheritance taxation	103
15.	Commitment	103

	Part III: Concluding comments Optimal taxation in non-neoclassical economies Concluding remarks erences	1036 1036 1037 1039
Chapter Tax In	16 cidence	
	NCE J. KOTLIKOFF AND LAWRENCE H. SUMMERS	1043
0.	Introduction	1043
1.	Preliminaries	1045
	1.1. The partial equilibrium analysis of tax incidence	1045
	1.2. Methodological issues	1047
	1.3. Empirical incidence evaluations	1049
2.	Static general equilibrium models of tax incidence	1050
	2.1. Tax incidence in a one-sector general equilibrium model	1050
	2.2. Tax incidence in a two-sector general equilibrium model	1054
	2.3. Estimate of tax incidence in static general equilibrium models	1063
3.	Tax incidence in open economies	1065
	3.1. A simple model of factor mobility	1065
	3.2. Further implications of the simple open economy model	1067
	3.3. Incidence of the property tax	1068
4.	Dynamic models of tax incidence	1070
	4.1. Tax incidence in a life-cycle, overlapping generations model	1071
	4.2. Income effects with intergenerational altruism and the possible neutrali	ty
	of intergeneration transfers	1078
	4.3. Transition effects	1079
	4.4. Asset prices and tax incidence	1082
5.		1088
Re	ferences	1088
Corrig	endum	1093
Index		1095