

## CSS 320 – JUNIOR ECONOMICS

College of Social Studies

Spring 2016

### Economics of the Welfare State

#### Course Description

The role that government plays in the lives of ordinary citizens has evolved dramatically over the past several decades. Even in the “free market” United States, spending on income security, health, and public pensions has increased from less than ten percent of government spending in the 1950s to over half of spending today. This tutorial will explore the economic justifications for and impacts of this evolution of the role of government. Particular attention will be paid to the theory of social insurance with emphasis on government involvement in the healthcare system; public pensions; unemployment insurance; education; and anti-poverty programs.

#### Instructor Information

Instructor: Prof. Damien Sheehan-Connor  
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#### Course Website

A course website will be maintained at <http://moodle.wesleyan.edu>. Important information will be posted and grades will be recorded here. All written assignments should be passed in through Moodle. Course announcements with a critical time component will be posted, but also e-mailed to class members.

## Readings

The required textbook for this course is:

Economics of the Welfare State, 5<sup>th</sup> Edition, by Nicholas Barr, Oxford University Press, 2012.

The book contains the core material for the course. In addition, we will read several journal articles that complement the textbook readings; see the “Course Timeline” below for details. The readings will sometimes contain more mathematics than many of you will have encountered before. The emphasis will be on understanding the concepts, the underlying intuition, and the implications of the math. Students will not be expected to solve mathematical problems or replicate math from the readings.

## Tutorial Sessions

The tutorial sessions will be used to discuss the textbook readings and journal articles. The course professor will lead discussion of the textbook readings highlighting key points and helping to develop intuition about the more mathematical concepts. Each student will be responsible for leading the discussion of one journal article at some time during the course; see below for details.

Student participation in the Tutorial Session will account for 20% of the final course grade.

## Response Papers

Before each tutorial session (including the first one) students are required to submit a response paper (two to three pages; 1 inch margins; 12 point font; double-spaced) based on the reading for that session. The response paper is **due at 8AM on the day of the tutorial** so that the instructor has time to read them before class.

It is critical that the response papers grapple with specific points made in the readings for that week. Here are some suggestions for what to focus on:

- For week one:
  1. Do you feel that the welfare state can be justified for normative reasons? For positive ones?
  2. How can a positive approach to the welfare state be useful no matter one’s normative views?
  3. Do you worry more about market failure or government failure? Provide examples.
  
- For week two:
  1. Why might people wish to purchase insurance (generally construed)?

2. What special challenges arise in markets for insurance? Are there market mechanisms that can address these challenges?
  3. Why might one worry about inequality? Why might one *not* worry about it?
- For weeks three through seven, it would be useful to attempt to address some or all of these “big picture” questions for the area under consideration:
    1. What sort of “good” is under discussion in the week’s reading?
    2. Do private markets exist to provide the good? If not, why not?
    3. Are there positive as well as normative reasons for government involvement in the area under discussion?
    4. Given the nature of market failures (if any) in this area, what sort of policy would you advocate? Be sure to explain how it addresses areas of concern raised in the readings.

The response papers will be graded on a scale of one (worst) to five (best) and will account for 25% of the final course grade.

## Student Led Discussion

During the tutorial, each student will be required to lead the discussion of one journal article. The student leading a discussion should come to class prepared to give a 15 to 20 minute presentation summarizing the paper. Many students find using slides for their presentation to be helpful, but they are not required.

At the first tutorial session, a list of journal articles and presentation dates will be provided to the class. Students will be ordered at random and sign up for which paper/date they will present. The articles are of varying length and degree of difficulty. The instructor’s expectations regarding the content of the student presentation will vary accordingly.

Students will be graded on their presentation and preparedness to lead the class discussion. This grade will account for 25% of the final course grade.

## Research Paper

On the last day of class, students are required to hand in a 15 to 20-page research paper (1 inch margins; 12 point font; double-spaced; excluding reference list, tables, and figures). The paper should analyze one particular area of government welfare policy from an economic point of view.

The first step in choosing a topic is to pick a broad area of welfare policy. Defining which policies are parts of “the welfare state” is difficult, as discussed in Section 1.2 of the textbook. The following is a non-exhaustive list of potential policy areas to write about:

- Anti- poverty programs

- Programs to reduce economic inequality
- Social insurance programs
  - Unemployment
  - Disability
  - Worker's compensation
- Government role in:
  - Education
  - Healthcare
- Public Pensions

Once you have chosen a policy area, you should think whether you would like to write broadly about that area or focus on a particular policy (for example, "primary education" versus "the No Child Left Behind law"). It is often easier to write with a focus on a single policy, but harder to draw general conclusions and make broad policy recommendations.

All papers should address the following question:

1. What is the economic justification for government intervention in this area? Are there reasons that private markets fail to achieve efficiency?

Papers with a **broad focus** should then answer:

2. What policies are available to the government to address the issues raised in question 1?
3. What are the (likely) impacts of these policies? Discuss both theoretical impacts and empirical evidence.
4. What are the relative merits of the different policy options? Make and defend a recommendation for the best approach to pursue.

Papers with a focus on a specific **existing policy** should answer:

2. Describe the specific policy. How does it address the issues raised in question 1?
3. What have been the impacts of this policy? Discuss both theoretical impacts and empirical evidence.
4. Has the policy been successful at addressing the issues raised in question 1? Make and defend a recommendation as to whether the policy should be: (a) continued in its current form; (b) modified; or (c) abandoned in favor of some alternative (including the alternative of no government intervention in this area).

Papers with a focus on a specific **proposed policy** should answer:

2. Describe the specific policy. How does it address the issues raised in question 1?
3. What are the likely impacts of this policy? Discuss both theoretical impacts and empirical evidence from related policies, if any.
4. Make and defend a recommendation as to whether the policy should be implemented.

Note that questions 2 and 3 can be approached using a largely *positive* approach, that is without using value judgments. The answer to question 1 may be *positive* (if there are clear market failures) or *normative* (if social justice is a primary justification) or have elements of both. Question 4 may involve specifying *normative* aims, but should include a *positive* defense of how your recommendation will help to achieve those aims.

The sources used in writing your paper should be clearly documented. Refer to a source in the text using the “author, year” convention, (e.g. Smith, 1776). Provide a list of references at the end of the paper alphabetized by author’s last name.

There will be two intermediate assignments due related to the research paper:

- Before class in Week 3, students should submit a one-page description of their paper topic. You should describe the policy area that you will write about and the specific policy if applicable. Provide at least five sources, including at least two from economics journals, that you have consulted. This item will not be graded, but failing to pass it in on time will result in a reduction of one grade on the final paper (e.g. an A- becomes a B+).
- Before class in Week 5, students should submit a two to four-page progress report. Include preliminary answers to Questions 1, 2, and 3 above. Provide at least ten sources, including at least five from economics journals, that you have consulted. This item will not be graded, but failing to pass it in on time will result in a reduction of one grade on the final paper (e.g. an A- becomes a B+).

The research paper will account for 30% of the final course grade.

## Grading

The course grade will be based upon the following:

- Class participation                      20%
- Response papers                            25%
- Student Presentation                      25%
- Final Research Paper                      30%

## Academic Integrity

Wesleyan University has an honor code that can be read at:

<http://www.wesleyan.edu/studentaffairs/honorboard/honorcode.html>

It is expected that students will abide by the honor code during this course.

Students are encouraged to discuss the readings and response papers before class, but the response papers should be written individually in each student's own words.

Students are encouraged to discuss the paper they will present in the student-led discussion with other students, the course instructor, or anyone else who might be helpful.

The research paper will necessarily draw on the work of others, but the paper's wording and the manner in which multiple sources are synthesized to make an argument should be original. I recommend that all students read the section of the Student Handbook that describes plagiarism:

<http://www.wesleyan.edu/studentaffairs/studenthandbook/standardsregulations/plagiarism.html>

**All research papers will be subjected to analysis by plagiarism detection software (i.e. turnitin.com).** Any suspected violations of the Honor Code will be referred to the Wesleyan University Honor Board.

## Students With Disabilities

It is the policy of Wesleyan University to provide reasonable accommodations to students with documented disabilities. Students, however, are responsible for registering with Disabilities Services, in addition to making requests known to me in a timely manner. If you require accommodations in this class, please make an appointment with me as soon as possible (by the third week of the semester), so that appropriate arrangements can be made. The procedures for registering with Disabilities Services can be found at <http://www.wesleyan.edu/studentaffairs/disabilities/studentguide.html>.

## Course Timeline

### Week 1: Social Justice, Market Failures

- Reading:
  - Textbook, Chapters 1-3
- Written Assignment:
  - Response paper

### Week 2: Insurance Market Failure, Inequality

- Reading:
  - Textbook, Chapters 4-5
  - Akerlof, George A (1970), "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," *The Quarterly Journal of Economics*, 84(3), pp. 488-500.
  - Piketty, Thomas and Saez, Emmanuel, "Income Inequality in the United States, 1913-1998," *The Quarterly Journal of Economics*, 118(1), pp. 1-39.
    - Also see updated data and description for general public at: <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2011.pdf>
    - You need not try to understand every detail, especially of the methodology
    - The point here is to get a sense of how income inequality has been changing and some ideas as to why it has been changing
- Written Assignment:
  - Response paper

### Week 3: Unemployment and Disability Insurance

- Reading:
  - Textbook, Chapter 6
  - Nicholson, Walter and Needles, Karen (2006), "Unemployment Insurance: Strengthening the Relationship between Theory and Policy," *Journal of Economic Perspectives* 20(3), pp. 47-70.
  - Autor, David H and Duggan, Mark G. (2006), "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding," *Journal of Economic Perspectives* 20(3), pp. 71-96.
- Written Assignment:
  - Response paper
  - Research paper topic

#### Week 4: Public Pensions

- Reading:
  - Textbook, Chapter 7
  - Hines Jr., James R and Taylor, Timothy (2005), "Shortfalls in the Long Run: Predictions about the Social Security Trust Fund," *Journal of Economic Perspectives* 19(2), pp. 3-9.
  - Diamond, Peter A and Orszag, Peter R (2005), "Saving Social Security," *Journal of Economic Perspectives* 19(2), pp. 11-32.
  - Feldstein, Martin (2005), "Structural Reform of Social Security," *Journal of Economic Perspectives* 19(2), pp. 33-55.
- Written Assignment:
  - Response paper

#### Week 5: Anti-poverty Programs

- Reading:
  - Textbook, Chapters 8-9
  - "Point/Counterpoint: Minimum Wage Policy," 2014. *Journal of Policy Analysis and Management*, 33(4), 1027-1049.
    - Please read the whole series of five "articles."
  - Eissa, Nada and Hilary Hoynes (2011), "Redistribution and Tax Expenditures: The Earned Income Tax Credit," *National Tax Journal*, 64(2, Part 2), 689-730.
- Written Assignment:
  - Response paper
  - Research paper progress report

#### Week 6: Healthcare

- Reading:
  - Textbook, Chapter 10
  - Gruber, Jonathan (2008), "Covering the Uninsured in the United States," *Journal of Economic Literature* 46:3, pp. 571-606.
  - Oliver, Adam (2009), "The Single-Payer Option: A Reconsideration," *Journal of Health Politics, Policy, and Law*, 34(4), pp. 509-530.
  - Newhouse, Joseph P (1992), "Medical Care Costs: How Much Welfare Loss?" *The Journal of Economic Perspectives*, 6(3), pp. 3-21.
- Written Assignment:
  - Response paper

#### Week 7: Education and Wrap-up

- Reading:
  - Textbook, Chapters 11-13
- Written Assignment:
  - Response paper
  - Final Research Paper