

Public Finance and Public Policy

Responsibilities
and Limitations
of Government

Arye L. Hillman

Second Edition

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This book is the second edition of *Public Finance and Public Policy* (2003). The second edition retains the first edition's themes of investigation of responsibilities and limitations of government but has been rewritten and restructured. Public-choice and political-economy concepts and political and bureaucratic principal-agent problems that are the sources of limitations on government are introduced at the beginning for application to later topics. Concepts of behavioral economics and experimental results are integrated throughout this edition. Asymmetric information is a recurring theme. The book begins with the efficiency case for the competitive market and the minimal responsibility of government to ensure the rule of law. Subsequent chapters address questions concerning institutions and governance, public goods, taxation and bond financing of public spending, market corrections (externalities and paternalist public policies), voting, social justice, entitlements, and choice of the structure of taxation and the tax base. The final chapter summarizes evidence on and reasons for the growth of government and considers how trust or social capital affects the need for government. The purpose of the book is to provide an accessible introduction to the choice between relying only on personal decisions in markets and the use of public finance and public policy by governments to improve on market outcomes.

Arye L. Hillman is William Gittes Professor of Economics at Bar-Ilan University in Israel. He has taught at Princeton University, the University of California in Los Angeles, and Australian National University and has been an invited lecturer at universities in various countries. Professor Hillman received his Ph.D. in economics from the University of Pennsylvania. His professional research includes studies under the auspices of the International Monetary Fund and the World Bank. He is a former president of the European Public Choice Society. Professor Hillman was jointly awarded the Max Planck Prize in Economics for his contributions to political economy.

ADDITIONAL PRAISE FOR *PUBLIC FINANCE AND PUBLIC POLICY*,
Second Edition

“This book provides a comprehensive and accessible account of the core issues in public finance and public policy. Although designed as a textbook, the book is also an organizing guide for practitioners and policymakers, who will find particularly useful the application of concepts to issues in income support and work incentives, education, health care, and the choice between tax financing and user prices.”

– Sanjeev Gupta, *Fiscal Affairs Department*,
International Monetary Fund, Washington, DC

“This fascinating book provides a clear account of the role of government through public finance and public policy. It gives a balanced and insightful analysis of the scope and limits of what government can and should do. Students will like the clear exposition, and researchers will benefit from the book as a reference volume.”

– Kai Konrad, *Max Planck Institute for Intellectual
Property, Competition and Tax Law, Munich*

“This book is a gem. It brings alive the topics of public finance. The book is an extraordinary piece of work that enables students to achieve a balanced overview of market failures and government failures and thereby gain mature insight into desirable interactions between the market and the state. Teachers and students will benefit from this major achievement for years to come, making this book a classic.”

– Dennis Snower, *Kiel Institute for the World Economy and
Christian-Albrechts University, Kiel*

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Responsibilities and Limitations of
Government: Second Edition

Arye L. Hillman

Bar-Ilan University, Israel



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For Jeannette

*Tamara and Yitzi; Ilana and Hovav; Nachman Eliyahu and Galit,
Benjamin and Yael*

*Dafna, Yishai, Mayan, Ya'ara, Dov, Ze'ev, Shani, Lior, Hallel, Harel, Raphael,
Michal, Eyal, Ronni, Eliashiv, Eitan, and Libbi, and the others*

In memory of my parents, for whom good government allowed a new beginning.
In memory of my brothers and my sister and all the other children.

From *Sayings of the Fathers*

The Individual and Social Justice

If I am not for myself, then who will be for me?
And if I am only for myself, then what am I?
And if not now, when?

*Hillel, 110 BCE – 20 CE**

The Individual and the Dilemma of Government

Pray for the peace of the government; for, except for the fear of that, we should have swallowed each other alive.

R. Hanina, born around the year 20 CE

Be cautious with the government, for they do not make advances to a man except for their own need. They seem like friends in the hour of their advantage, but they do not stand by a man in his hour of adversity.

Rabban Gamliel, around the year 230 CE

* *BCE and CE* are universal ways of indicating dates. *BCE* indicates before the Common Era of counting and *CE* indicates the Common Era.

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