Economic models in much of the public economics literature have been slow to reflect the significant changes towards double-income households throughout the developed world. This graduate-level text develops a more sophisticated approach to household economics, one that allows for multiple-income earners and shared decision-making. This approach is used to present a fundamentally new view of consumption. It is then applied to an analysis of tax systems, combining theoretical analysis of optimal taxation and tax reform with a careful empirical study of the characteristics of income tax systems in four different countries: Australia, Germany, the UK and the USA. The book is particularly concerned with analysing, both theoretically and empirically, the impact of taxation on female labour supply, and identifying its effects on work incentives and fairness of income distribution. All this adds up to a fascinating new approach to the economics of households for researchers in both the public and private sectors.

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Public Economics and the Household

Patricia Apps

and

Ray Rees
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Preface

The economic model that underlies most of labour economics and public economics, particularly the analysis of taxation, is that of a single consumer/worker dividing their time between market labour supply and leisure. However, many issues in reality are concerned with policies towards families, a majority of which contain two earners. At the same time, quite a large literature has developed over the past three or four decades concerned with developing and testing models of family decision-taking. The purpose of this book therefore is to bring together the economics of multi-person households and those areas of labour supply and public economics for which this generalisation of the standard model seems to us to be most relevant and important. Essentially, it is proposing a new foundation for much of the analysis of labour supply and public economics.

After a general introductory chapter, the first part of the book, chapters 2–5, surveys the main developments in the economics of the household, focusing particularly on the use of the models to analyse labour supply, with emphasis also on models of time allocation, consumption and saving over the life cycle. We present models that can be used in their own work by graduate students and researchers in the areas of the economics of the household, labour supply and public policy.

The second part of the book, chapters 6–9, deals with optimal income taxation and tax reform. We have tried to make the treatment as far as possible self-contained, in that we present graduate-level expositions of the existing models before going on to extend the theory to consider issues such as the taxation of couples, the significance of household production and other determinants of female labour supply, and the implications of income support schemes for the effective marginal tax rates on second earners. Here we present work that has appeared in the recent journal literature as well as the results of new research.

The book therefore sets out to be a combination of a graduate-level textbook in the economics of the household and optimal tax theory, and an account of recent and current research. We hope it will be of interest to teachers and students in graduate courses in economics of the household, labour economics and public economics, as well as to researchers in those areas.
Preface

Most of the material has been presented in graduate courses at the universities of Munich and York (Ray Rees), and Essex University, the IZA Summer School in Labour Economics and the Sorbonne (Patricia Apps) over the past five years or so. We are very grateful to participants in these courses for many comments and questions that have stimulated clarification and further development of the ideas we are presenting here.

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