



# Public finance and public policy: a new textbook

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*A review of Public Finance and Public Policy: Responsibilities and Limitations of Government, Arye L. Hillman,*  
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## Abstract

What are the responsibilities and limitations of government? By drawing on insights from normative public finance, public choice, and new political economy, Arye L. Hillman's textbook on public finance provides an engaging, clear, and well-organised introduction to the subject and defines a framework within which answers to this question can be given. The book will not only be of value to undergraduate teaching in public finance, but will also appeal to graduate students, academics and policymakers who want a concise and up-to-date overview of the main ideas and developments in the area.

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## **1. Introduction**

Governments around the world are each year trusted with substantial resources by their citizens, in some cases more than 40% of GDP. What governments do with these resources as well as the methods they use to raise them in the first place greatly affect human wellbeing. Public finance, as an academic discipline, is devoted to the task of understanding the responsibilities and limitations of government, and, today, a rich and varied body of knowledge on the subject exists. A key task of university education in economics is to pass on this knowledge to students, who as citizens, as government officials, as politicians or in some other future capacity will have to make choices about public policy in one way or the other.

Arye L. Hillman's textbook, "Public Finance and Public Policy, Responsibilities and Limitations of Government," is devoted precisely to that task. By drawing on insights from normative public finance, public choice, and new political economy, it passes on this inheritance in an engaging, clear, and well-organised fashion that will give a boost to undergraduate teaching in public finance. A significant achievement of the book is to strike a fine balance between normative and positive aspects of public finance—a balance that is essential for a comprehensive understanding of what governments can and should do.

## **2. The content of the book**

The book covers in 10 chapters and accompanying appendixes the entire canon of public economics: public goods, externalities, social justice and redistribution, and taxation and user prices; and thus provides a solid foundation on which critical (economic) thinking about the responsibilities and limitations of government can be based. Each chapter (with the exception of one) begins by asking whether the private sector could undertake the relevant activities in an efficient and equitable way and thus if government involvement is really needed, and is concluded with a selective, annotated reading list and questions for discussion. The reading lists contain an appropriate mixture of classical readings and the latest research findings. The book assumes little prior knowledge of economics and presents the material by means of verbal explanations, simple diagrams, and a few formulas.

The starting point, in Chapter 1 on "Markets and Property," is a discussion of the boundaries of government, ranging from minimal government limited to the task of securing the framework within which competitive markets can deliver the promised efficiency gains to maximum government with collective property rights. Most importantly, perhaps, the fundamental role of government in establishing and overseeing the rule of law and securing private property rights is given prominence with an extensive (game theoretical) treatment. For students, who live and study in societies where the rule of law is well established and for whom the inefficiencies and injustices that arise in its absence are largely unknown, the role of government in bringing about this state of affairs and maintaining it can too easily be overlooked. By bringing the rule of law to the forefront of the discussion of the responsibilities of

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