# THE UNIVERSITY OF CALIFORNIA, SAN DIEGO Department of Economics

# Economics 230

# Government Revenues

This year, economics 230 is the first quarter of a three quarter graduate sequence in public economics. Those intending to pursue research in public economics are urged to take all three courses in this sequence.

The focus for this quarter is national tax policy. The first third of the course will survey past theoretical work assessing the efficiency and equity effects of any given tax structure in a rather abstract setting, and then derive the optimal policy given a plausible social objective function. The rest of the course will then examine in more depth the economic effects of existing tax provisions. There will be separate sections on the personal income tax, the corporate tax, and the estate tax.

The readings are of two types. Starred readings are viewed to be essential background in each area. The remaining readings provide a sense of the breadth of the topics that have been examined to date. All readings are available on the Ted web site for the course.

The requirements of the course are a final exam that will count for 45% of the grade, and a course paper that will count for 60%. You are in graduate school to learn to do research in economics, and the best way to learn to do it is to do it!

This paper should provide an initial detailed outline of a topic that has the potential to be a chapter in your dissertation. You should get far enough on the topic that you know how to proceed to complete the paper during your third year. An example would be a careful critique of a current weakness in the past literature on a topic, a proposal for how to address this weakness, and an initial layout of the theory (if it will be a theoretical paper) or a proposed empirical specification that can be estimated given available data sets (without doing the estimation). This paper is due by the last day of classes. A plausible length for a paper is ten to fifteen pages.

Some sample problem sets are posted on Ted along with suggested answers. While these problem sets will not be graded, I strongly urge you to work through the problems before looking at the answers. This is how you learn!

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## Government Revenues

Economics 230 Fall, 2013 TTh 8:00 - 9:20 Roger Gordon

### I. Positive and normative models of taxes

## A. Tax incidence (9/30)

\*Fullerton-Metcalf, "Tax Incidence," in *Handbook of Public Economics*, vol. 4, ed. by Auerbach and Feldstein, North Holland, 2002, pp. 1787-1872.

Goolsbee, "Investment Subsidies and Wages in Capital Goods Industries: To the Workers Go the Spoils," National Tax Journal, 2003, pp. 153-65.

Rothstein, "Is the EITC Equivalent to an NIT? Conditional Cash Transfers and Tax Incidence," American Economic Journal: Economic Policy, 2010, pp. 177-208.

## B. Excess burden of a tax (10/2)

\*Auerbach, "<u>The Theory of Excess Burden and Optimal Taxation</u>," in *Handbook of Public Economics*, vol. 1, ed. by Auerbach and Feldstein, North Holland, 1985, pp. 61-86.

Hausman and Newey, "Nonparametric Measurement of Exact Consumers Surplus and Deadweight Loss," Econometrica, 1995, pp. 1445-1476.

Bernheim and Rangel, "Behavioral Public Economics: Welfare and Policy Analysis with Non-Standard Decision Makers." In *Economic Institutions and Behavioral Economics*, edited by Peter Diamond and Hannu Vartiainen, 2007

## C. Equity issues (10/7)

\*Kaplow, <u>"A Fundamental Objection to Tax Equity Norms,"</u> National Tax Journal, 1995, pp. 497-514.

Buchanan, <u>"Taxation in Fiscal Exchange,"</u> Journal of Public Economics, North Holland, 1976, pp. 17-30.

Coate-Morris, <u>"On the Form of Transfers to Special Interests,"</u> Journal of Political Economy, 1995, pp. 1210-1235.

Reynolds, "The Misuse of Tax Data to Estimate Income Distribution," mimeo, 2006.

## D. Optimal commodity tax and expenditure policies (10/9)

\*Stern, <u>"The Theory of Optimal Commodity and Income Taxation: An</u> <u>Introduction."</u> In Newbery and Stern, *The Theory of Taxation For Developing Countries*, World Bank, 1987.

Chetty et al, "Salience and Taxation: Theory and Evidence," American Economic Review, 2009, pp. 1145-1177.

#### E. Optimal income taxes (10/14)

\*Piketty and Saez, "Optimal Labor Income Taxation," NBER Working Paper No. 18521.

Naito, <u>"Re-examination of Uniform Commodity Taxes Under a Non-Linear Income Tax</u> System and its Implication for Production Efficiency," Journal of Public Economics, 1999, pp. 165-188.

Besley and Coate, <u>"Workfare versus Welfare: Incentives Arguments for Work</u> <u>Requirements in Poverty-Alleviation Programs,</u>" *American Economic Review*, 1992, pp. 249-61.

Blackorby and Donaldson, <u>"Cash versus Kind, Self-Selection, and Efficient</u> Transfers," American Economic Review, 1988, pp. 691-700.

Mankiw et al, "Optimal Taxation in Theory and Practice," Journal of Economic Perspectives, 2009, pp. 147-74.

## F. Tax Enforcement (10/16)

\*Andreoni, Erard, and Feinstein, <u>"Tax Compliance,"</u> Journal of Economic Literature, 1998, pp. 818-60.

Davis-Henrekson, <u>"Tax Effects on Work Activity, Industry Mix and Shadow Economy</u> <u>Size: Evidence from Rich-Country Comparisons,"</u> NBER Working Paper No. 10509, 2004.

Kleven et al, "Unwilling or Unable to Cheat? Evidence from a Tax Audit Experiment in Denmark," *Econometrica*, 2011, pp. 651-692.

## II. U.S. tax structure

### A. Personal taxation

## 1. Taxes and reported income (10/21)

\*Feldstein, <u>"Tax Avoidance and the Deadweight Loss of the Income Tax,"</u> Review of Economics and Statistics. 1999, pp. 674-80.

Gruber and Saez, <u>"The Elasticity of Taxable Income: Evidence and Implications,"</u> NBER WP #7512, 2000.

Saez et al, "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review," Journal of Economic Literature, 2012, pp. 3-50. Gordon and Slemrod, <u>"Are `Real' Responses to Taxes Simply Income Shifting</u> <u>Between Corporate and Personal Tax Bases?</u> in J. Slemrod, ed., *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, 2000.

## 2. Analysis of taxation of labor supply (10/23, 10/28)

\*Blundell and MaCurdy, <u>"Labor Supply: A Review of Alternative Approaches,"</u> in Ashenfelter and Card, eds., *Handbook of Labor Economics*, Vol. 3, 1999, pp. 1569-1695.

Chetty et al, "Adjustment Costs, Firm Responses, and Micro vs. Macro Labor Supply Elasticities: Evidence from Danish Tax Records," NBER Working Paper No. 15617, 2011.

Chetty, "Sufficient Statistics for Welfare Analysis: A Bridge Between Structural and Reduced-Form Methods," Annual Review of Economics, 2009, pp. 451-88.

Saez et al, "Earnings Determination and Taxes: Evidence from a Cohort Based Payroll Tax Reform in Greece," *Quarterly Journal of Economics*, 2012, pp. 493-523.

Lemieux, Fortin, and Frechette, <u>"The Effect of Taxes on Labor Supply in the</u> Underground Economy," American Economic Review, 1994, pp. 231-54.

#### 2. Analysis of taxation of income from savings (10/30)

\*Bernheim, <u>"Taxation and Savings,"</u> in *Handbook of Public Economics*, vol. 3, ed. by Auerbach and Feldstein, North Holland, 2002, pp. 1173-1250.

Chetty et al, "Active vs. Passive Decisions and Crowdout in Retirement Savings Accounts: Evidence from Denmark," NBER Working Paper No. 18565, 2012.

Gordon, <u>"Taxation of Interest Income,"</u> International Tax and Public Finance, 2004, pp. 5-15.

Golosov et al, <u>"New Dynamic Public Finance: A User's Guide,"</u> NBER Macroeconomics Annual 2006, pp. 317-388.

### 3. Portfolio composition (11/4)

\*Poterba, <u>"Taxation, Risk-Taking, and Household Portfolio Behavior,"</u> in Handbook of Public Economics, vol. 3, ed. by Auerbach and Feldstein, North Holland, 2002, pp. 1109-1172.

Gordon, <u>"Taxation of Investment and Savings in a World Economy,"</u> American Economic Review, 1986, pp. 1086-1102.

Auerbach, Burman, and Siegel, <u>"Capital-Gains Taxation and Tax Avoidance: New</u> Evidence from Panel Data," in Slemrod, ed., Does Atlas Shrug? The Economic Consequences of Taxing the Rich, 2000, pp. 355-88.

Auerbach, <u>"Retrospective Capital Gains Taxation,"</u> American Economic Review, 1991, pp. 167-78.

## 4. Deductible or excludable items (11/6)

\*Saez, <u>"The Optimal Treatment of Tax Expenditures,"</u> Journal of Public Economics, 2004, pp. 2657-84.

Gruber-Poterba, <u>"Tax Incentives and the Decision to Purchase Health Insurance,"</u> Quarterly Journal of Economics, 1994, pp. 701-33.

Bakija, Gale, and Slemrod, <u>"Charitable Bequests and Taxes on Inheritances and</u> Estates," NBER Working Paper No. 9661, 2003.

*{NOTE:* No class on 11/11 due to Veteran's Day.*}* 

## B. Corporate income taxation

## 1. Overview and choice of Organizational form (11/13)

\*Gordon, "How Should Income from Multinationals be Taxed?", section 1, mimeo.

\*MacKie-Mason and Gordon, <u>"How Much do Taxes Discourage Incorporation,"</u> Journal of Finance, 1997, pp. 477-505.

Goolsbee, <u>"The Impact and Inefficiency of the Corporate Income Tax: Evidence from State Organizational Form Data,"</u> Journal of Public Economics, 2004, pp. 2283-2299.

## 2. Dividends (11/18)

\*Gordon and Dietz, "Dividends and Taxes," NBER Working Paper No. 12292, 2006.

Bernheim-Wantz, <u>"A Tax-Based Test of the Dividend Signaling Hypothesis,"</u> American Economic Review, 1995, pp. 532-551.

Chetty-Saez, "Dividend Taxes and Corporate Behavior: Evidence from the 2003 Dividend Tax Cut," Quarterly Journal of Economics, 2005, pp. 791-833.

## 3. Financial Policy (11/20)

\*Graham, <u>"Taxes and Corporate Finance: A Review,"</u> Review of Financial Studies, 2003, pp. 1075-1129.

Gordon-Lee, "Do Taxes Affect Corporate Debt Policy? Evidence from U.S. Corporate Tax Return Data," Journal of Public Economics, 2001, pp. 195-224.

Gordon, "Taxation and Corporate Use of Debt: Implications for Tax Policy," National Tax Journal, 2010, pp. 151-74.

## 4. Investment decisions (11/25)

\*Hassett and Hubbard, <u>"Tax Policy and Business Investment,"</u> in *Handbook of Public Economics*, vol. 3, ed. by Auerbach and Feldstein, North Holland, 2002, pp. 1293-1343.

Gordon, Kalambokidis, and Slemrod, "If Capital Income Taxes Are So High, Why Do We Collect So Little Revenue? A New Summary Measure of the Effective Tax Rate on Investment." In Measuring the Tax Burden on Capital and Labor, edited by Peter Birch Sorensen.

Goolsbee, "The Value of Broadband and the Deadweight Loss of Taxing New Technology," Contributions in Economic Analysis & Policy, 2006.

Cullen and Gordon, <u>"Taxes and Entrepreneurial Activity: Theory and Evidence for</u> the U.S., " Journal of Public Economics, 2007, pp. 1479-1505.

## 5. International issues (11/27)

\*Sørensen, "Can Capital Income Taxes Survive? And Should They?" mimeo, 2006.

Gordon and Hines, "International Taxation," in Handbook of Public Economics, vol. 4, ed. by Auerbach and Feldstein, North Holland, 2002, pp. 1935-96.

Grubert, <u>"Intangible Income, Intercompany Transactions, Income Shifting, and the</u> Choice of Location," *National Tax Journal*, 2003.

Keen and Ligthart, <u>"Information Sharing and International Taxation,"</u> International Tax and Public Finance, 2006, pp. 81-110.

#### C. Tax Policy in Developing Countries (12/2)

\*Gordon and Li, <u>"Tax Structure in Developing Countries: Many Puzzles and a</u> Possible Explanation," *Journal of Public Economics*, 2009, pp. 855-866.

Kleven et al, "Why Can Modern Governments Tax So Much? An Agency Model of Firms as Fiscal Intermediaries," NBER Working Paper No. 15218, 2009.

Dharmapala et al, "Tax Policy and the Missing Middle: Optimal Tax Remittance with Firm-Level Administrative Cost," *Journal of Public Economics*, 2011, pp. 1036-47.

#### D. Estate taxation (12/4)

\*Kopczuk, "Economics of Estate Taxation: A Brief Review of Theory and Evidence," NBER Working Paper No. 15741.

Kopczuk, "Incentive Effects of Inheritance and Optimal Estate Taxation," NBER Working Paper No. 18747, 2013.

Kopczuk, "Taxation of Intergenerational Transfers and Wealth," NBER Working Paper No. 18584, 2012.

Bernheim, Lemke, and Scholz, <u>"Do Estate and Gift Taxes Affect the Timing of</u> Private Transfers?", Journal of Public Economics, 2004, pp. 2617-34.