

Economics 547
Fall 2006

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The following readings are designed to give an overview of major issues in empirical and institutional public finance.

BOOKS:

Aaron, H. J. and Pechman, J. A. (ed.) *How Taxes Affect Economic Behavior*, Brookings.

Aaron, H. (1975), *Who Pays the Property Tax?*, Brookings.

Atkinson, A. and J. Stiglitz, *Lectures on Public Economics* (McGraw Hill, 1980).

Hall, R. and A. Rabushka (1995), *The Flat Tax*, Second Edition, Hoover Press.

Oates, W. E. (1972), *Fiscal Federalism*, Harcourt, Brace, and Jovanovich.

Oates, W. E. (ed.) (1975), *Financing the New Federalism*, Resources for the Future.

Pechman, J., *Federal Tax Policy*, Norton.

Pechman, J. and B. Okner, *Who Bears the Tax Burden?*, Brookings.

Shoven, J. and J. Whalley (1992), *Applying General Equilibrium*, Cambridge University Press.

Wright, D. S. (1978), *Understanding Intergovernmental Relations*, Duxbury.

U. S. Government, Department of Treasury, *Blueprints for Basic Tax Reform*, Office of Tax Analysis.

I. National Public Finance

M A. The Institutions

Federal Tax Policy, ch. 4-5.

B. The Personal Income Tax

M 1. Overview

Strauss, R.P. (1990), "Micro-simulation Models and Taxpayer Behavior: Understanding Current Law and its Alternatives," working paper.

Berliant, M. and P. Rothstein, "Possibility, Impossibility, and History in the Origins of the Marriage Tax," *National Tax Journal*, June 2003 (vol. 56, no. 2).

Strauss, R.P. and G. Clarke (1996), "Effects of the Federal Individual Income Tax on Marriage and Divorce Decisions," working paper.

M 2. Deductions

Clotfelter, C. T. and Steuerle, C. E., "Charitable Contributions," in Aaron and Pechman.

Feldstein, M., "The Income Tax and Charitable Contributions," *National Tax Journal*, March and June 1975.

Reece, W., "Charitable Contributions: New Evidence on Household Behavior," *American Economic Review*, March 1979 (vol. 69, no. 1).

Kingma, B., "An Accurate Measurement of the Crowd-out Effect, Income Effect, and Price Effect for Charitable Contributions," *JPE*, 1989, (vol. 97, no. 5).

Kingma, B., "An Estimate of the Impure Altruist's Motivations for Charity: The Warm Glow Effect and the Guilt Effect," working paper (1990).

Greene, P. and R. McClelland, "The Effects of Federal Estate Tax Policy on Charitable Contributions," Technical Paper Series, Congressional Budget Office, 2001-2 (March 2001).

Gouveia, M. and R.P. Strauss, "The US Individual Income Tax and the Deduction for Medical Expenditures," August 2004.

P 3. Work-Leisure Choices

MaCurdy, T., "Work Disincentive Effects of Taxes: A Reexamination of Some Evidence," *AER* (May 1992).

Heim, B.T. and B.D. Meyer, "Work Costs and Nonconvex Preferences in the Estimation of Labor Supply Models," *Journal of Public Economics* 88 (2004).

Heim, B.T. and B.D. Meyer, "Structural Labor Supply Models When Budget Constraints are Nonlinear," mimeo, December 2003.

Feldstein, M., "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act," *JPE* 103 (1995).

Goolsbee, A., "What Happens When You Tax the Rich? Evidence From Executive Compensation," *JPE* 108 (2000).

M 4. Capital Gains and Losses

Minarik, J. J. "Capital Gains," in Aaron and Pechman.

Stiglitz, J. E., "The Effects of Income, Wealth and Capital Gains Taxation on Risk-Taking," *QJE* (May 1969).

Feldstein, M., "The Effects of Taxation on Risk Taking," *JPE* (September/October 1969).

Feldstein, M., "Personal Taxation and Portfolio Composition: An Econometric Analysis," *Econometrica* 44, (July 1976).

Feldstein, M. and S. Yitzhaki, "The Effects of the Capital Gains Tax on the Selling and Switching of Common Stock," *J. Pub. E.* 9, (1978).

Poterba, J.M., "Taxation, Risk-Taking, and Household Portfolio Behavior," NBER Working Paper 8340 (June 2001).

P 5. Housing

McDonald, J.F. and R.A. Moffitt, "The Uses of Tobit Analysis," *Review of Economics and Statistics* 62 (1980).

Lee, L.F. and R.P. Trost, "Estimation of Some Limited Dependent Variable Models with Application to Housing Demand," *Journal of Econometrics* 8 (1978).

Rosen, H.S., "Housing Decisions and the US Income Tax: An Econometric Analysis," *Journal of Public Economics*, 1979.

Bartik, T.J., "The Estimation of Demand Parameters in Hedonic Price Models," *JPE* 95 (1987).

P 6. Incidence

Besley, T. and H.S. Rosen, "Sales Taxes and Prices: An Empirical Analysis," *National Tax Journal*, 1999.

Gruber, J. and B. Koszegi, "Tax Incidence When Individuals are Time Inconsistent: The Case of Cigarette Excise Taxes," *Journal of Public Economics* 88 (2004).

Poterba, J., "Lifetime Incidence and the Distributional Burden of Excise Taxes," *AER* 79 (1989).

Mitrusi, A. and J. Poterba, "The Distribution of Payroll and Income Tax Burdens, 1979-99," *National Tax Journal* (2000).

M C. Issues in Corporate Taxation

Fullerton, D. and M. King, *The Taxation of Income from Capital*.

Modigliani, F. and M. H. Miller, "The Cost of Capital, Corporation Finance and the Theory of Investment," *AER*, (June 1958).

Modigliani, F. and M. H. Miller, "Corporate Income Taxes and the Cost of Capital: A Correction," *AER*, (June 1963).

Miller, M. H., "Debt and Taxes," *Journal of Finance*, (May 1977).

Gordon, Roger H. and Burton G. Malkiel, "Corporate Finance".

Poterba, J., "Taxation and Corporate Payout Policy," NBER Working Paper 10321 (February 2004).

P D. Growth and Taxation

Engen, E. and J. Skinner, "Taxation and Economic Growth," *National Tax Journal* 49 (1996).

P E. Social Security

Feldstein, M., "Social Security and Saving: The Extended Life Cycle Theory," AER Papers and Proceedings (May 1976).

Feldstein, M., "Social Security and Saving: New Time Series Evidence," National Tax Journal 49 (1996).

Gustman, A.L. and T. L. Steinmeier, "The Social Security Early Entitlement Age in a Structural Model of Retirement and Wealth," Journal of Public Economics 89 (2005).

M F. Tax Reform

McClure, C., "Integration of the Corporate and Personal Income Taxes: The Missing Element in Recent Tax Reform Proposals," Harvard Law Review (January 1975).

Blueprints, ch. 2, 4.

The Flat Tax.

Chirinko, R.S., S.M. Fazzari and A.P. Meyer, "How Responsive is Business Capital Formation to its User Cost? An Exploration with Micro Data," Journal of Public Economics 74, 1999, 53-80.

II. Public Deficits and Debt

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Feldstein, Martin, "Budget Deficits, Tax Rules and Real Interest Rates," NBER, w.p. 1970, 1986.

Summers, Lawrence H., "Debt Problems and Macroeconomic Policies," NBER, w.p. 2061, Oct 1986.

Poterba and Summers, "Finite Lifetimes and the Savings Effects of Budget Deficits," NBER, w.p. 1955.

Feldstein, Martin, "Debt and Taxes in the Theory of Public Finance," J. Pub. E. (28) 1985.

Barro, Robert, "Are Government Bonds Net Worth?" JPE, 1974, pp. 1095-1118.

III. Applied General Equilibrium Models

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Applying General Equilibrium, Part II.

Ballard, C., J. Shoven and J. Whalley, "General Equilibrium Computations of the Marginal Welfare Costs in the United States," American Economic Review, March 1985.

Ballard, C., D. Fullerton, J. B. Shoven and J. Whalley, *General Equilibrium Analysis of U.S. Tax Policies*, North Holland, 1985.

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Goulder, L. H., J. B. Shoven and J. Whalley, "Domestic Tax Policy and the Foreign Sector: The Importance of Alternative External Sector Formulations to Results from a General Equilibrium Tax Analysis Model," in Feldstein, M. (ed.), *Behavioral Simulation Methods in Tax Policy Analysis*, University of Chicago Press for National Bureau of Economic Research.

Jorgenson, D. W., in H. Scarf and J. Shoven (eds.), *Applied General Equilibrium Analysis*, New York: Cambridge University Press, 1983.

Shoven, J. B. and J. Whalley, "A General Equilibrium Calculation of the Effects of Differential Taxation of Income from Capital in the U.S.," *Journal of Public Economics*, November 1972.

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Whalley, J. and B. Yeung, "External Sector 'Closing Rules' in Applied General Equilibrium Models," *Journal of International Economics*, February, 1984.

IV. Local Public Finance

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A. Multi-Tiered Government and the First Best

B. Multi-Tiered Government and the Second Best

C. Multi-Tiered Government in the U.S.

1. Legal Features

2. Intergovernmental Relations

3. Expenditure Shares

a. Data.

b. Interpretation.

4. Fiscal Federalism

- a. Feldstein, M. S., "Wealth Neutrality and Local Choice in Public Education," AER 65 (1975).
- b. Knight, B., "Endogenous Federal Grants and Crowd-out of State Government Spending," AER 92 (2002).
- c. Gordon, N., "Do Federal Grants Boost School Spending? Evidence from Title I," Journal of Public Economics 88 (2004).

D. The Tiebout Hypothesis

- 1. Theory
- 2. Empirical Work

E. Property Taxation

- 1. Musgrave, R.A., "Is a Property Tax on Housing Regressive?" AER 64 (1974).
- 2. Oates, W. E., "The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Capitalization and the Tiebout Hypothesis," JPE 77 (1969).
- 3. Palmon, O. and B.A. Smith, "New Evidence on Property Tax Capitalization," Journal of Political Economy 106 (1998).
- 4. Carrol, R.J. and J. Yinger, "Is the Property Tax a Benefit Tax? The Case of Rental Housing," National Tax Journal 47 (1994).
- 5. Oates, W.E. and R.M. Schwab, "The Impact of Urban Land Taxation: The Pittsburgh Experience," National Tax Journal 50 (1997).

F. Equity Issues

- 1. Theory

- a. Inman, R. and D. Rubinfeld (1979), "The Judicial Pursuit of Local Fiscal Equity," Harvard Law Review 92 no. 8, pp. 1662-1750.

- 2. Empirical Work

- a. Ladd, H. (1975), "Local Education Expenditures, Fiscal Capacity, and the Composition of the Property Tax Base," NTJ 28 no. 2, pp. 145-226.

- b. Ladd, H. (1976), "State-wide Taxation of Commercial and Industrial Property for Education," NTJ 29 no. 2, pp. 143-53.