

Economics 2600 Public Economics (Taxation)

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Preliminaries

The standard grading scheme for the course is:

Class presentation	15%
Short paper	25%
Final exam	50%
Class participation	10%

There is no required textbook, but you may wish to consult:

Richard Tresch, 2002, *Public Finance: A Normative Theory*, 2nd ed, (Amsterdam, Academic Press).

Bernard Salanie, 2003, *The Economics of Taxation*, (Cambridge, MIT Press).

Papers marked * in the following you should definitely read – preferably before they are discussed in class. In contrast, not all the topics marked † will be covered this year.

Lectures

1. Introduction

Tresch, chaps. 1-4.

2. Deadweight loss and tax avoidance

*A. Auerbach and J. Hines, 2002, “Taxation and economic efficiency,” secs. 1-2, in A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics*, vol. 3, pp. 1347-1421. (Also NBER Working Paper 8181.)

Diamond, P. and D. McFadden, 1974, “Some uses of the expenditure function in public finance”, *Journal of Public Economics*, 3, 3-22.

3. Measuring deadweight loss

*Feldstein, M., 1995, “The effects of tax rates on taxable income: A panel study of the 1986 Tax Reform Act,” *Journal of Political Economy* 103, 551-572.

*Sillamaa, M. and M. Veall, 2001, “The effect of marginal tax rates on taxable income: A study of the 1988 tax flattening in Canada,” *Journal of Public Economics* 80, 341-356.

Austan Goolsbee, 1999, “Evidence on the High-Income Laffer Curve from Six Decades of Tax Reform,” *Brookings Papers on Economic Activity*, Vol. 1999, No. 2 (1999), pp. 1-64.

Saez, E., J. Slemrod, and S. Giertz, 2010, “The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review,” *Journal of Economic Literature*, forthcoming.

4. Optimal taxation

*Salanie, ch. 2 and 3

*A. Auerbach and J. Hines, 2002, “Taxation and economic efficiency,” sec. 3, in A. Auerbach and M. Feldstein, eds., *Handbook of Public Economics*, vol. 3, 2002, 1347-1421. (Also NBER Working Paper 8181.)

*Chari, VV and Patrick Kehoe, "Optimal Fiscal and Monetary Policy," in Handbook of Macroeconomics, Volume 1C, John Taylor and Michael Woodford, Eds, North Holland, Amsterdam, 1999. (Also Minneapolis Fed Staff Report 251, 1998.), sec. 1.

*Sarah E. West and Robertson C. Williams III, 2007, "Optimal taxation and cross-price effects on labor supply: Estimates of the optimal gas tax," Journal of Public Economics, Volume 91, Issues 3-4, April 2007, Pages 593-617

5. Taxation of capital income

Bernheim, B. D., 2002, "Taxation and saving," Handbook of public economics, vol. 3, A. Auerbach and M. Feldstein, eds., (Amsterdam, North-Holland).

*Chari, VV and Patrick Kehoe, "Optimal Fiscal and Monetary Policy," in Handbook of Macroeconomics, Volume 1C, John Taylor and Michael Woodford, Eds, North Holland, Amsterdam, 1999. (Also Minneapolis Fed Staff Report 251, 1998.), sec. 2.

Banks, James and Peter Diamond, 2010, "The Base for Direct Taxation," in Dimensions of Tax Design: the Mirrlees Review, J. Mirrlees, et al. (eds), Oxford University Press.

6. Income taxation

Salanie, ch. 4-5

A. Auerbach and J. Hines, 2002, "Taxation and economic efficiency," sec. 3.

Atkinson, A. B. and J. E. Stiglitz, 1976, "The design of the tax structure: Direct versus indirect taxation," Journal of Public Economics 6, 55-75.

*Stiglitz, J. E., 1982, "Self-selection and Pareto efficient taxation," Journal of Public Economics.

*Diamond, P., 1998, "Optimal income taxation: An example with a U-shaped pattern of optimal marginal tax rates," American Economic Review 88, 83-95.

Brewer, Mike, Emmanuel Saez, and Andrew Shephard, 2010, "Means-testing and Tax Rates on Earnings," in Dimensions of Tax Design: the Mirrlees Review, J. Mirrlees, et al. (eds), Oxford University Press.

Emmanuel Saez and Michael R. Veall, 2005, "The Evolution of High Incomes in Northern America: Lessons from Canadian Evidence," American Economic Review, Vol. 95, No. 3 (Jun., 2005), pp. 831-849.

Peter Diamond and Emmanuel Saez, 2011, "The case for a progressive tax: From basic research to policy recommendations," Journal of Economic Perspectives 25 (4), 165-190

7. Taxation of the family[†]

Michael J. Boskin and Eytan Sheshinski, 1983, "Optimal tax treatment of the family: Married couples," Journal of Public Economics, Volume 20, Issue 3, April 1983, Pages 281-297.

*John Piggott and John Whalley, 1996, "The Tax Unit and Household Production," Journal of Political Economy, Vol. 104, No. 2 (Apr., 1996), pp. 398-418.

Alberto Alesina, Andrea Ichino, Loukas Karabarbounis, 2007, "Gender Based Taxation and the Division of Family Chores," NBER Working Paper No. 13638, November 2007.

H. Kleven, C. Kreiner and E. Saez, 2009, "The Optimal Income Taxation of Couples." *Econometrica* 77, pp. 537-560. An earlier version is available as NBER Working Paper 12685, November 2006.

*A. Gelber, 2008, "Taxation and Family Labor Supply," mimeo, Harvard University. [You can download the paper here.]

8. Long-run fiscal policy[†]

Barro, Robert, 1979, "On the Determination of the Public Debt," *Journal of Political Economy* 87, 940-971.

*Barro, Robert, 1989, "The Ricardian Approach to Budget Deficits," *Journal of Economic Perspectives*, Vol. 3, No. 2 (Spring 1989), pages 37-54.

*B. Douglas Bernheim, 1989, "A Neoclassical Perspective on Budget Deficits," *Journal of Economic Perspectives*, Vol. 3, No. 2 (Spring 1989), pages 55-72.

B. Douglas Bernheim, 1987, "Ricardian Equivalence: An Evaluation of Theory and Evidence," *NBER Macroeconomics Annual* Vol. 2, (1987), pp. 263-304

L.J. Kotlikoff, 2006, "Is the United States bankrupt?" *Federal Reserve Bank of St. Louis Review*, 235-250.

9. Income support programs[†]

Akerlof, George, "The Economics of Tagging as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning," *American Economic Review*, 1978.

Besley, Timothy and Stephen Coate, "The Design of Income Maintenance Programmes," *Review of Economic Studies*, 1995.

*Blackorby, Charles and David Donaldson, "Cash versus Kind, Self Selection and Efficient Transfers," *American Economic Review*, 1988.

Besley, T. and S. Coate, 1992, "Workfare versus Welfare: Incentive Arguments for work requirements in Poverty Alleviation Programs", *American Economic Review* 82, 249-261.

Janet Currie and Firouz Gahvari, 2008, "Transfers in Cash and In-Kind: Theory Meets the Data," *Journal of Economic Literature* 46 #2, June 2008, 333-83.

Eissa, N. and J.B. Liebman, 1996, "Labour Supply response to the Earned Income Tax Credit". *Quarterly Journal of Economics* 111, 605-637.

10. Targeted savings programs[†]

Gale, William G. and John Karl Scholz, 1994, "IRAs and Household Saving," *American Economic Review* 84, December 1994, 1233-1260.

Poterba, James M., Steven F. Venti and David A. Wise, 1995, "Do 401(k) Contributions Crowd Out Other Personal Saving?" *Journal of Public Economics* 58, 1995, 1-32.

Engen, E., W. Gale, and J.K. Scholz, 1996, "The Illusory Effects of Saving Incentives," *Journal of Economic Perspectives* 10, 113-138.

Poterba, J., S. Venti, and D. Wise, 1996, "How Retirement Saving Programs Increase Saving," *Journal of Economic Perspectives* 10, 91-112.

Alexander Gelber, 2009, "How Do 401(k)s Affect Saving? Evidence from Changes in 401(k) Eligibility," September 2009.

11. Behavioural public economics[†]

Becker, Gary and Kevin Murphy, "A Theory of Rational Addiction," *Journal of Political Economy*, 1988.

Bernheim, B. Douglas, 2009, "Behavioral Welfare Economics," *Journal of the European Economic Association*, Vol. 7, No. 2-3, Pages 267-319

*Chetty, Raj, Adam Looney and Kory Kroft, "Salience and Taxation: Theory and Evidence," *American Economic Review*, vol. 99(4), pages 1145-77, September.

Finkelstein, Amy, 2009, "EZ-Tax: Tax Salience and Tax Rates," *Quarterly Journal of Economics*, Vol. 124, No. 3, Pages 969-1010.

Ted O'Donoghue and Matthew Rabin, 2003, "Studying Optimal Paternalism, Illustrated by a Model of Sin Taxes," *American Economic Review Papers and Proceedings*, 93(2), May 2003, 186-191.

12. Tax competition[†]

*J. Wilson, 1999, "Theories of tax competition", *National Tax Journal*, 52, 269-304.

Kanbur, R. and M. Keen 1993, "Jeux sans frontieres: Tax competition and tax co-ordination when countries differ in size", *American Economic Review*, 83, 877-892.

Wildasin, D., 1991, "Income redistribution in a common labor market," *American Economic Review* 81, 757-774.

*M. Feldstein and M. Wrobel, 1998, "Can state taxes redistribute income?" *Journal of Public Economics* 68, 369-396.

13. International taxation[†]

Salanie, ch. 6

*R. Gordon and J. Hines, "International taxation," NBER Working Paper 8854.

Roger H. Gordon, 1992, "Can Capital Income Taxes Survive in Open Economies?" *Journal of Finance* 47, No. 3, pp. 1159-1180

Hines, James R., 1996, "Altered states: Taxes and the location of foreign direct investment in America," *American Economic Review* 86(5), 1076-1094.

Qing Hong and Michael Smart, 2010, "In praise of tax havens: International tax planning and foreign direct investment," *European Economic Review* 54, 82-95.

J. Wilson and D. Wildasin, 2004, "Capital Tax Competition: Bane or Boon?" *Journal of Public Economics*, 1065-1091.

14. Fiscal federalism[†]

*Boadway, R. and F. Flatters, 1982, "Efficiency and equalization payments in a federal system of government," *Canadian Journal of Economics* 15, 613-633.

Smart, M., 1998, "Taxation and deadweight loss in a system of intergovernmental transfers," *Canadian Journal of Economics* 31, 189-206.

*Fernandez, R. and R. Rogerson, 1996, "Income Distribution, Communities, and the Quality of Public Education," *Quarterly Journal of Economics*, Vol. 111, No. 1 (Feb., 1996), pp. 135-164.

Knight, B., 2002, "Endogenous Federal Grants and Crowd-Out of State Government Spending: Theory and Evidence from the Federal Highway Aid Program," *American Economic Review* 92, 71-92.

J. Hines and R. Thaler. 1995. "Anomalies: The Flypaper Effect." *Journal of Economic Perspectives*, 9: 217-226.

D. Albouy, 2010, "Evaluating the Efficiency and Equity of Federal Fiscal Equalization," NBER Working Paper 16144.

15. Taxation and development[†]

R. Burgess and N. Stern, 1993, "Taxation and Development," *Journal of Economic Literature* 31, 762–830.

C. B. Mulligan, R. Gil, and X. Sala-i-Martin, 2004, "Do democracies have different public policies than nondemocracies?" *Journal of Economic Perspectives* 18, 51–74.

R. Gordon and W. Li, 2009, "Tax structures in developing countries: Many puzzles and a possible explanation," *Journal of Public Economics* 93, 855–866.

Besley, T. and Persson, T., 2011, *Pillars of Prosperity: State Capacity and Economic Development*, OUP, 2011.