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King
and
Fullerton

The Taxation of Income from Capital

A Comparative Study of
the United States, the
United Kingdom, Sweden,
and West Germany

The Taxation of
Income from Capital

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National
Bureau of
Economic
Research

Edited by

Mervyn A. King
and Don Fullerton



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Institut für
Wirtschaftsforschung



Industriens
Utredningsinstitut

Chicago

The Taxation of Income from Capital

A Comparative Study of the United States, the
United Kingdom, Sweden, and West Germany

Edited by MERVYN A. KING
AND DON FULLERTON

Taxation—both corporate and personal—has been held responsible for the low investment and productivity growth rates experienced in the West during the last decade. This book, a comparative study of the taxation of income from capital in the United States, the United Kingdom, Sweden, and West Germany, establishes for the first time a common framework for analysis that permits accurate comparison of tax systems. It represents a collaboration of the National Bureau of Economic Research with the Industrial Institute for Economic and Social Research (Sweden) and the Institute for Economic Research (West Germany) and is the most comprehensive study to date of incentives afforded by the tax system.

The failure of most developed economies to sustain high growth rates has led to an increased awareness of the economic lessons countries can learn from one another. *The Taxation of Income from Capital* provides this vitally important exchange of information, and it clearly answers questions that previous studies on this subject have failed to examine. It compares the effective tax rates levied on capital income in the nonfinancial corporate sector in four major economies, and in so doing, supplies the reader with detailed information about the structure of the corporate sector in each country. The study finds striking variation in

(Continued on back flap)

The Taxation of Income from Capital



A National Bureau
of Economic Research
Monograph



**Institut für
Wirtschaftsforschung**



**Industriens
Utredningsinstitut**

The Taxation of Income from Capital

A Comparative Study
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United Kingdom, Sweden,
and West Germany

Edited by Mervyn A. King and
Don Fullerton

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(Resolution adopted October 25, 1926, as revised through September 30, 1974)

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Preface

In early 1979 Martin Feldstein suggested that the general approach of Mervyn King's *Public Policy and the Corporation* (1977) could be used to compare effective marginal tax rates for several different countries. Since the existing studies had employed different methods, thus making inter-country comparisons hazardous, we decided to launch a study based on a common method that might shed light on the significant economic differences among the tax systems in four major economies that have experienced different degrees of economic success—the United States, the United Kingdom, Sweden, and West Germany. In this book we report the results of that enterprise, undertaken with the combined financial and human resources of the National Bureau of Economic Research (NBER) in Cambridge, Massachusetts, Institut für Wirtschaftsforschung (IFO) in Munich, West Germany, and the Industriens Utredningsinstitut (IUI) in Stockholm, Sweden. In addition, we gratefully acknowledge financial support from the National Science Foundation under grant numbers SES791420 and SES8025404.

Our first meeting was held at NBER in August 1979. This meeting included Helmut Laumer and Willi Leibfritz from IFO in Germany, Gunnar Eliasson and Jan Södersten from IUI in Sweden, Mervyn King and John Flemming from Britain, and several United States economists including Alan Auerbach, David Bradford, Larry Dildine, Martin Feldstein, Don Fullerton, Charles McLure, John Shoven, and Lawrence Summers. Subsequent meetings were held in Stockholm, June 1980, in Munich, November 1980, in Cambridge, August 1981, at the London School of Economics, January 1982, and again in London, June 1982. We received valuable comments and assistance from participants at each of these meetings.

In particular, though all authors participated in writing the whole manuscript, we would like to acknowledge the primary efforts made with

respect to each chapter. The United Kingdom chapter was written primarily by Mervyn King of the University of Birmingham and NBER, by Michael J. Naldrett of the University of Birmingham and later of Princeton University, and by James Poterba of Nuffield College, Oxford, and NBER. We received invaluable assistance from E. B. Butler, R. M. Elliss, J. King, and P. Penneck of the Inland Revenue, from R. I. Armitage of the Central Statistical Office, and from J. S. Flemming and J. Rying of the Bank of England.

The chapter on Sweden was written primarily by Jan Södersten of IUI and the University of Uppsala and by Thomas Lindberg of IUI. We are especially indebted to Villy Bergström, Göran Normann, Göran Råbäck, and Rolf Rundfelt for valuable assistance and helpful comments. Contributions were also made by participants of the research seminar of IUI and by Ragnar Bentzel, Christen Herzen, Sven-Olof Lodin, Gustav Sandström, and Leif Sundberg.

Primary authors of the chapter on Germany were Willi Leibfritz of IFO and Julian Alworth of the Bank for International Settlements in Basel, Switzerland. We are especially grateful to Heinz Ludwig of IFO for research assistance. Other helpful comments and assistance were received from Hans-Georg Jatzek, Robert Koll, Josef Körner, and Stephan Teschner. We are also grateful for statistical help from Christa Bronny and Christian Wagner, and from the Deutsche Bundesbank and the Statistisches Bundesamt.

Don Fullerton was the primary author of the United States chapter, though frequent assistance was provided by Yolanda K. Henderson. At several points during our progress we received help from Alan J. Auerbach, Larry L. Dildine, Daniel Feenberg, Martin Feldstein, Barbara M. Fraumeni, Roger H. Gordon, Dale W. Jorgenson, Lawrence B. Lindsey, Charles E. McLure, John B. Shoven, Martin A. Sullivan, Lawrence H. Summers, and William Vickrey.

Mervyn King had primary responsibility for the introductory chapters 1 and 2, and he began the computer programming with Michael Naldrett at the University of Birmingham. Later computer work was undertaken at Princeton University by Don Fullerton, Michael Naldrett, and Thomas Kronmiller. Fullerton had primary responsibility for writing chapter 7; tables for that chapter were drawn up by Thomas Kronmiller. David Bradford, also at Princeton, and Don Fullerton contributed their efforts as the primary authors of our concluding chapter. Particular mention must be made of Don Fullerton's efforts to produce results for each country from the Princeton computer according to a tight schedule.

Again, although we want to credit those responsible for each chapter, we also wish to emphasize that this book is a joint product, not a collection of separate papers. All authors participated in the drafting and

redrafting of the manuscript and in the development of a common view on how best to tackle the problem we set ourselves.

Finally, we would like to express our thanks for remarkable efficiency and patience to those who typed various parts of the manuscript: Ingrid Hensel, Alice Pattersson, Jenny Saxby, Judy Weinberger, Michael Wickham, and Maja Woxen, and to Annie Zeumer of NBER for making life as easy as possible for the authors. A last word of thanks must go to Randall Mørck, who organized and shepherded the preparation of the final manuscript.

