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Volume Author/Editor: Carl S. Shoup

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Chapter Author: Edward K. Smith

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Foreword

Every discipline is subject to having too much claimed for it by its practitioners. Public finance may be no exception, but a reading of this volume will lead many to conclude that the subject matter is so broad, up to and including general equilibrium models, that many of its practitioners have claimed too little rather than too much for it. Agendas for research are revealing, for the larger the agenda, the greater the likelihood that the subject matter impinges on, or is inclusive of, other disciplines. This is as true of a subdiscipline of a science as of the science itself. A cynic might charge that agendas are large because they are directly proportionate to the ignorance expressed. A more realistic view, and one to which most of us would subscribe, is that, as a discipline expands its knowledge, it simultaneously increases the area of new and unanswered questions. The expansion of knowledge increases the penumbra of the unknown at the frontiers, for the frontiers have widened.

The essential impression one gets from this National Bureau of Economic Research Fiftieth Anniversary Colloquium is that the agenda for quantitative research in taxation and government expenditures has greatly widened and that both the new and the old questions need to be probed more deeply. In the social sciences such a conclusion is not unexpected. To some, feelings of doubt and uncertainty also enter. To others, the paradigms have been or will need to be modified; the subject matter is not now what it was thirty or more years ago. The "tired topics" must give way to the new.

This colloquium, dedicated to the late Harold Groves, a distinguished practitioner of the discipline who was long associated with the National Bureau, called upon Carl Shoup, of Columbia University and the National Bureau, to review the field and suggest an agenda for future research. Shoup restricted his review to quantitative research, a restriction that excludes theoretical contributions unaccompanied by quantitative information. Shoup uses the term quantitative, rather than empirical, because "few public finance studies of facts and figures formulated empirical statements in the sense of refutable hypotheses

subject to testing by appeal to the facts." The reader will discover that while such a restriction greatly limits, it by no means denudes, the subject at hand. The agenda for research is still larger than the resources available would permit us to exploit.

Shoup examines two tax topics at length: the distribution of taxation by income classes, and the shifting and incidence of taxation. He summarizes many others, chiefly in terms of the present state of quantitative knowledge. These include effects of taxes on investment and business behavior and on the supply of labor; the excess burden of taxation; and time series and cross-section studies of tax system characteristics. Another section of his paper examines government expenditures as they have been researched to discover "laws" of expenditures, government services as outputs, and efficiency of expenditures.

Shoup appraises the need and prospects for quantitative research and possible outlets for such work. The National Bureau's reentry into the public finance field on a fairly large scale is predicted, with emphasis on the closed model, e.g., studies of tax substitutions. The author is aware that there may be some delay, for "even the simplest of such projects are likely to prove too much for any small group of individual scholars . . . on their own." Certainly economic research has suffered from the inadequate scale of individual investigations. Shoup's hope that the future will be different is shared by his coworkers.

In another section Shoup reviews the impact of past studies on the formulation of policy, and the possible policy impact that may be envisioned for the future. He concludes that for distribution studies, the policy impacts have been negligible, perhaps because policy makers felt that too many institutional restraints had to be overcome. Further studies will have to show what happens to the distribution of income under postulated tax changes along with imputation of benefits from government services and subsidy payments. Subsidies seem "to have been subject to very little serious quantitative analysis in terms of incidence." On the other hand, there have been many studies of the impact of tax changes by alternative programs. They have had a substantial role in policy making, but unfortunately most of them are produced within the government and remain unpublished. Such studies have neglected the *incidence* of taxation, however.

Richard Musgrave and James Buchanan are the discussants of Shoup's paper. Professor Buchanan feels that traditional public finance has been transformed into "one of the most exciting areas in political economy," for "our paradigms have been modified" and today public

finance is "public economics." Here we see the tendency to claim much for a discipline, as I commented earlier. Consequently, Buchanan does not think Shoup has included enough in his review, and feels he should have excluded some of the "tired topics." Institutionalists are recalled to duty, especially to bring a greater degree of realism to econometric models. On the whole, Buchanan thinks Shoup has led us down the wrong path.

Professor Musgrave is willing to let the flowers bloom. Many paths can and should be tried. Large models may bring disillusionment, but the future lies in econometric work. Both big and small projects can be productive. We need to work on the analysis of bureaucracy, as Buchanan wants, as well as of tax incidence, as Shoup advises. We need also to measure the fiscal capacities and needs of various jurisdictions, the incentive effects of negative income taxation, and the substitution of value added taxes for corporate taxes.

The research agenda grows larger. The reader may add (or subtract) his own topics for investigation as he reads this volume. It is to be hoped that he will find new insights for his own agenda, choosing his own path, and no doubt increasing the breadth and depth of that which we call public finance. Walter Heller, our moderator, called it a "vast unfinished business." That it is. In the end, Professor Buchanan withdrew the word "tired."

I opened the session by introducing Walter Heller to our Washington audience. The colloquium closed with a dinner address on revenue sharing by the Hon. Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs.

EDWARD K. SMITH
Vice President