Volume Title: Tax Policy and the Economy, Volume 23

Volume Author/Editor: Jeffrey R. Brown and James M. Poterba, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 978-0-226-07654-6

Volume URL: http://www.nber.org/books/pote08-3

Conference Date: September 25, 2008

Publication Date: July 2009

Title: Introduction to "Tax Policy and the Economy, Volume 23"

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URL: http://www.nber.org/chapters/c10569

Introduction

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The papers in this year's volume address a range of topics. Two tackle issues related to the Social Security program: the labor supply effects of the earnings test and the extent of redistribution within the current program. Two papers focus on tax policy: one on corporate tax losses and the other on how globalization influences the design of a tax system. A fifth paper examines the voluminous literature on whether federal government provision of goods and services crowds out provision by lower levels of government and/or the private sector. These papers demonstrate both the breadth and the depth of analysis that is a hallmark of the *Tax Policy and the Economy* series.

The first paper, by Leora Friedberg and Anthony Webb, is "New Evidence on the Labor Supply Effects of the Social Security Earnings Test." The earnings test reduces Social Security benefits for individuals who continue to work after claiming Social Security, although these benefits are later returned to the worker in the form of higher benefits. Even though the policy has no effect on the expected present value of benefits for someone with an average life span, many people view it as a pure tax, and prior research has shown it to have a substantial effect on the choice of hours among older individuals who continue to work after claiming Social Security benefits. This paper analyzes the labor supply response from major changes to the earnings test rules that were implemented in 1996 and 2000. By using new sources of longitudinal data on labor supply transitions, the authors study the effects of both current and past earnings test parameters on the labor supply of the affected cohorts. They estimate that the elimination of the earnings test in 2000 increased employment by about 3.5 percentage points for workers aged 65 in that year and by about 2 percentage points for those between the ages of 66 and 69. The paper also finds that employment rates at younger ages also increased by about 1 percentage point, which may be explained by workers

978-0-226-07654-6/2009/2009-0200$10.00

recognizing that the changes in earnings test rules would make more attractive continued work after claiming benefits.

The second paper, by Jeffrey Brown, Julia Coronado, and Don Fullerton, is "Is Social Security Part of the Social Safety Net?" This paper builds on the large and growing literature that examines the amount of income redistribution achieved by the Social Security system. Past work suggests that the measured degree of redistribution depends on the measure of redistribution chosen and on the definition of income that is used to categorize households by economic well-being. Consistent with prior research, this paper finds that when more comprehensive measures of income are used—such as measuring on a household rather than on an individual basis—the progressivity of the Social Security system declines. However, the paper also shows that this result is often driven by a lack of redistribution across the upper and middle parts of the income distribution, therefore masking some positive transfers to those at the bottom of the distribution. As a result, the authors show that it is possible for the Social Security system to exhibit little overall progressivity along standard metrics such as the change in the Gini coefficient, while still making net transfers to the lowest-income households. The paper also shows, however, that redistribution often goes in unexpected directions, with many high-income households receiving positive transfers and many low-income households paying net taxes.

Finally, the paper shows that the progressivity of the Social Security system has changed over time because of changing labor force patterns and other demographic shifts, but the direction of these changes once again depends on the income that the study uses. Specifically, when comparing individuals in pre–baby boomer cohorts to baby boomers, the study suggests that Social Security is becoming slightly less redistributive using individual income measures and slightly more redistributive using household measures.

The third paper is by Rosanne Altshuler, Alan Auerbach, Michael Cooper, and Matthew Knittel. In "Understanding U.S. Corporate Tax Losses," the authors begin by showing that the ratio of corporate income tax losses to positive income was much higher around the recession of 2001 than in earlier recessions, even though those recessions were more severe. Using a comprehensive sample of U.S. corporate tax returns for the period 1982–2005, the authors explore a variety of potential explanations for this surge in tax losses, taking account of the significant use of stock options in compensation packages beginning in the 1990s and of recent temporary tax provisions that might have had important effects on taxable income. They find that losses rose because the average rate of return of C corporations fell. This factor appears more important than an increase in the dispersion of returns or an increase in the gap between corporate profits subject to tax and corporate profits as measured by the national income accounts. The paper also suggests that the increasing importance of S corporations may help to explain the recent experience within the C corporate sector, because S corporations have exhibited a different pattern of losses in recent years. This paper raises a new puzzle about why the rates of return of C corporations fell so much early in the decade and why the incidence of losses among C and S corporations has diverged.

In the next paper, James Hines and Lawrence Summers examine the increase in demand for government services around the world and its implications for raising revenue in the presence of increasingly mobile economic activity. "How Globalization Affects Tax Design" argues that the greater mobility of factors of production means that even large countries such as the United States are becoming more like small open economies in terms of the responsiveness of the tax base to changes in tax rates. The paper demonstrates that smaller countries tend to rely more heavily on taxes on goods, services, and international trade than larger countries. It notes in particular the growing popularity of value-added taxes, which are used in more than 130 countries. The paper observes that the United States taxes personal and corporate income at high rates relative to other countries and that the efficiency costs of this type of taxation will continue to grow relative to other forms of taxation as the world economy becomes increasingly integrated. The paper notes that globalization creates challenges for distributional issues, particularly since many expenditure taxes are, at least in practice, less progressive than income tax alternatives.

The final paper in this volume, by Abigail Payne, is "Does Government Funding Change Behavior? An Empirical Analysis of Crowd-Out." Crowd-out is the name for a broad set of phenomena in which the government provision of goods and services reduces the provision of the same or similar goods and services by other levels of government and/or the private sector. This paper surveys the recent literature on crowd-out in a variety of settings, with a focus on three types of analysis. First, it summarizes research on how federal funding influences state and local expenditures, with an emphasis on how differences in econometric methods across studies affect the measured "flypaper effect," the documented tendency for intergovernmental grants to raise outlays by recipient governments by more than neoclassical theories of government behavior might suggest. Second, the paper examines how government grants influence private donations to charitable and religious organizations. Third, the paper explores changes in individual behavior when the government provides a privately consumed good, such as health insurance. This paper highlights the sensitivity of empirical results both to statistical methods and to the specific institutional setting in which crowd-out is examined.

Each of the five papers in this volume illustrates the ability of academic research to provide rigorously grounded insights that have relevance to public policy. Without making policy recommendations, this body of research helps to inform the broader policy community about the key economic issues that are relevant to making important economic decisions.