

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: The Effects of Taxation on Capital Accumulation

Volume Author/Editor: Martin Feldstein, ed.

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-24088-6

Volume URL: <http://www.nber.org/books/feld87-1>

Publication Date: 1987

Chapter Title: Front matter, table of contents, acknowledgments

Chapter Author: Martin Feldstein

Chapter URL: <http://www.nber.org/chapters/c11342>

Chapter pages in book: (p. -11 - 0)

Feldstein



National
Bureau of
Economic
Research

The Effects of Taxation on Capital Accumulation

The Effects of Taxation on
Capital Accumulation



National
Bureau of
Economic
Research

F

Chicago

Edited by
Martin Feldstein

The Effects of Taxation on Capital Accumulation

Edited by MARTIN FELDSTEIN

Research on capital formation has long been a major focus of studies sponsored by the National Bureau of Economic Research because of the crucial role of capital accumulation in the process of economic growth. The papers in this volume examine the influence of taxes on capital formation, with specific focus on the determinants of saving and the process of investment in plant and equipment.

As Martin Feldstein notes in his introduction, tax rules affect the return savers receive in exchange for postponing consumption and thus are an important influence on the rate of saving. An increase in saving can lead to investment in plant and equipment, which directly contributes to raising productivity and so to improving the nation's standard of living. This increase in saving may also stimulate housing or foreign investment. The research reported here shows that the allocation of capital among different kinds of investment is shaped by a variety of factors. What unites these disparate elements is their influence on the relative profitability and riskiness of alternative types of investment. The findings clearly show that current tax rules and changes in tax rules have powerful effects on business investment in plant and equipment, on personal saving, and on the realization of capital gains.

Individual papers examine a variety of issues, among them: the effect of Individual Retirement Accounts on personal saving, and that of the after-tax interest rate on consumer spending; the influence of anticipated changes in tax rules on decisions regarding business investment and, indirectly, on the international location of investment; the bias in current tax law's allocation of

(Continued on back flap)

The Effects of Taxation on Capital Accumulation



**A National Bureau
of Economic Research
Project Report**

The Effects of Taxation on Capital Accumulation

Edited by **Martin Feldstein**



The University of Chicago Press

Chicago and London

Martin Feldstein is the George F. Baker Professor of Economics at Harvard University and President of the National Bureau of Economic Research.

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London

© 1987 by the National Bureau of Economic Research
All rights reserved. Published 1987
Printed in the United States of America

96 95 94 93 92 91 90 89 88 87 5 4 3 2 1

Library of Congress Cataloging-in-Publication Data

The Effects of taxation on capital accumulation.

(A National Bureau of Economic Research project report)

Bibliography: p.

Includes index.

1. Taxation. 2. Saving and investment. I. Feldstein, Martin S. II. Series.

HJ2305.E29 1987 332'.0415 86-25025

ISBN 0-226-24088-6

National Bureau of Economic Research

Officers

Franklin A. Lindsay, *Chairman*
Richard N. Rosett, *Vice Chairman*
Martin Feldstein, *President and Chief Executive Officer*

Geoffrey Carliner, *Executive Director*
Charles A. Walworth, *Treasurer*
Sam Parker, *Director of Finance and Administration*

Directors at Large

Moses Abramovitz
Andrew Brimmer
Carl F. Christ
George T. Conklin, Jr.
Jean A. Crockett
Morton Ehrlich
Martin Feldstein
Edward L. Ginzton
David L. Grove

George Hatsopoulos
Walter W. Heller
Saul B. Klamman
Franklin A. Lindsay
Roy E. Moor
Geoffrey H. Moore
Michael H. Moskow
James J. O'Leary
Robert T. Parry

Peter G. Peterson
Robert V. Roosa
Richard N. Rosett
Bert Seidman
Eli Shapiro
Stephen Stamas
Donald S. Wasserman
Marina v.N. Whitman

Directors by University Appointment

Marcus Alexis, *Northwestern*
Charles H. Berry, *Princeton*
James Duesenberry, *Harvard*
Ann F. Friedlaender, *Massachusetts Institute of Technology*
J. C. LaForce, *California, Los Angeles*
Paul McCracken, *Michigan*
James L. Pierce, *California, Berkeley*

Andrew Postlewaite, *Pennsylvania*
Nathan Rosenberg, *Stanford*
James Simler, *Minnesota*
James Tobin, *Yale*
John Vernon, *Duke*
William S. Vickrey, *Columbia*
Burton A. Weisbrod, *Wisconsin*
Arnold Zellner, *Chicago*

Directors by Appointment of Other Organizations

Edgar Fiedler, *National Association of Business Economists*
Robert S. Hamada, *American Finance Association*
Robert C. Holland, *Committee for Economic Development*
James Houck, *American Agricultural Economics Association*
David Kendrick, *American Economic Association*
Douglass C. North, *Economic History Association*

Rudolph A. Oswald, *American Federation of Labor and Congress of Industrial Organizations*
Douglas D. Purvis, *Canadian Economics Association*
Albert T. Sommers, *The Conference Board*
Dudley Wallace, *American Statistical Association*
Charles A. Walworth, *American Institute of Certified Public Accountants*

Directors Emeriti

Arthur F. Burns
Emilio G. Collado
Solomon Fabricant

Frank W. Fetter
Thomas D. Flynn
Gottfried Haberler

George B. Roberts
Willard L. Thorp

Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published by the National Bureau until the President has sent each member of the Board a notice that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the principles of the National Bureau. Such notification will include an abstract or summary of the manuscript's content and a response form for use by those Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Directors (including Directors Emeriti) shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when notice of the proposed publication is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

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

Contents

	Acknowledgments	xi
	Introduction	1
	Martin Feldstein	
1.	IRAs and Saving	7
	Steven F. Venti and David A. Wise	
	<i>Comment:</i> Angus Deaton	
2.	Consumer Spending and the After-Tax Real Interest Rate	53
	N. Gregory Mankiw	
	<i>Comment:</i> Laurence J. Kotlikoff	
3.	Capital Gains Rates, Realizations, and Revenues	69
	Lawrence B. Lindsey	
	<i>Comment:</i> John H. Makin	
4.	The Effects of Tax Rules on Nonresidential Fixed Investment: Some Preliminary Evidence from the 1980s	101
	Martin Feldstein and Joosung Jun	
	<i>Comment:</i> Roger H. Gordon	
5.	Anticipated Tax Changes and the Timing of Investment	163
	Alan J. Auerbach and James R. Hines, Jr.	
	<i>Comment:</i> Andrew B. Abel	

6.	New Results on the Effects of Tax Policy on the International Location of Investment	201
	Michael J. Boskin and William G. Gale <i>Comment:</i> David G. Hartman	
7.	Notes on the Tax Treatment of Structures	223
	Roger H. Gordon, James R. Hines Jr., and Lawrence H. Summers <i>Comment:</i> Emil M. Sunley	
8.	Tax Changes and Capital Allocation in the 1980s	259
	Patric H. Hendershott <i>Comment:</i> Harvey S. Rosen	
9.	Investment Incentives and the Discounting of Depreciation Allowances	295
	Lawrence H. Summers	
10.	Tax Loss Carryforwards and Corporate Tax Incentives	305
	Alan J. Auerbach and James M. Poterba <i>Comment:</i> David F. Bradford	
11.	Tax Asymmetries and Corporate Tax Reform	343
	Saman Majd and Stewart C. Myers <i>Comment:</i> Joseph E. Stiglitz	
12.	The Cash Flow Corporate Income Tax	377
	Mervyn A. King <i>Comment:</i> Daniel Feenberg	
13.	The Impact of Fundamental Tax Reform on the Allocation of Resources	401
	Don Fullerton and Yolanda Kodrzycki Henderson <i>Comment:</i> J. Gregory Ballentine	
14.	The Value-Added Tax: A General Equilibrium Look at Its Efficiency and Incidence	445
	Charles L. Ballard, John Karl Scholz, and John B. Shoven <i>Comment:</i> Harvey Galper	
	List of Contributors	481
	Author Index	485
	Subject Index	487

Acknowledgments

This volume brings together fourteen papers that were prepared as part of an ongoing study of the effects of taxation on capital accumulation that is being carried out at the National Bureau of Economic Research. Taken as a whole, these studies show that current tax rules and changes in tax rules have powerful effects on business investment in plant and equipment, on personal saving, and on the realization of capital gains.

The NBER research on taxation and capital accumulation has been discussed at regular meetings of the Bureau's tax program and at special meetings focused on this project. The papers included in this volume were presented at a conference on February 13–16, 1986. The remarks of the discussants at that conference are also included in this volume.

The collaborative research presented here was made possible by continuing activities of the NBER's tax program. Several members of that program contributed to the effort even though they did not prepare papers for this volume. The volume thus benefited from the general guidance of tax program director David F. Bradford. National Bureau Directors George T. Conklin, Jr., Ann F. Friedlaender, and J. Clay LaForce have reviewed the entire manuscript. National Bureau staff members Mark Fitz-Patrick, Deborah Mankiw, Kathi Smith, Annie Spillane, Gail Swett, and Kirsten Foss Davis contributed to the overall effort.

