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This year’s Tax Policy and the Economy (TPE) conference, which was held at the National Press Club on October 3, 2013, occurred on the third day of the 2013 federal government shutdown. The shutdown, which ultimately lasted through October 16, 2013, was caused by Congress’s inaction with regard to passing a budget resolution that would fund operations for the 2014 fiscal year. During this shutdown period, many federal employees were indefinitely furloughed, including many of those who regularly attend the Tax Policy and the Economy conference. Many government employers forbade their employees from attending any events in their official capacities and some agencies interpreted this to include the NBER conference. The shutdown also prevented three of our paper discussants and our keynote speaker from participating in the conference.

In spite of these limitations, the conference was a success in many dimensions. The papers were of high quality and policy-relevant. The authors presented their work with passion and clarity, and the audience members, while fewer than usual, were large in their impact; the attendees added enormous value with their questions and comments. Indeed, the rigorous and high quality focus on effective policymaking that was exemplified by this conference stood in sharp contrast to the political brinkmanship that was taking place elsewhere in Washington while we met.

This year’s conference included four papers on tax policy and one paper estimating the economic magnitude of the liabilities of the Pension Benefit Guaranty Corporation (PBGC). The four papers on tax policy included work on closely held firms, multinational corporations, the tax treatment of housing, and the political economy of gasoline taxes. All of the papers from the conference, which appear in the five subsequent
chapters of this volume, illustrate depth and breadth of the research capabilities of NBER research associates and their ability to translate research into policy relevant insights.

The first chapter in this volume focuses on closely-held firms. Using a novel dataset from Norway, Annette Alstadsaeter, Wojciech Kopczuk, and Kjetil Telle explore the important question of whether closely held firms are used as tax shelters. The authors make use of a tax reform announced in 2004, which took effect in 2006, that increased the tax rate on dividend from approximately zero to 28% of the amount in excess of a risk-free return allowance for personal shareholders. At the same time, the government announced that capital gains to corporate shareholders would no longer be taxed. One incentive created by this change was to increase dividends in 2004 and 2005, and then to retain earnings in later years. Interestingly, the authors find that although dividends responded strongly to the anticipated reform, there was close to complete offset, in that investors recapitalized the firms using about the same amount of capital. The authors provide evidence consistent with the motivation for this behavior being that the firm is being used for private saving or private consumption. More broadly, this chapter underscores the importance for firm behavior of considering interactions between personal and firm level taxation.

The second chapter in this volume, by Doug Shackelford and Kevin Markle, provides a substantial amount of descriptive data related to the taxation of multinational corporations. They examine over 9,000 firms across 87 countries, and calculate how a firm’s tax rate is affected by its presence in each country. The authors do this by regressing firm level income tax expense as a percentage of pretax income against the location of both parent and subsidiary locations. Although these coefficients cannot be interpreted as strictly causal, they nonetheless provide insight into several first order questions related to taxation of multinational firms. They document substantial heterogeneity in tax rates depending on where companies are located. For example, they document dramatically higher tax rates for firms headquartered in Japan than US-headquartered firms, whereas firms in the Middle East enjoy much lower rates. Thus, a key conclusion is that “location matters” when it comes to a firm’s tax domicile. The authors also document that average tax rates were relatively stable over the 2006–2011 period, and document relatively small differences by industry. They also find that, on average, the United States taxes financial firms a bit more heavily, and information firms more lightly, than the rest of the world.
David Albouy and Andrew Hanson discuss the taxation of housing in the third chapter in this volume. In particular, they focus on the ways in which the tax treatment of housing influences location and consumption decisions and leads to inefficiencies. The US federal tax code subsidizes home ownership in several ways, including the deductibility of mortgage interest, preferential capital gains treatment, and the exclusion of imputed rent from the tax base. The fiscal implications of these choices are substantial: the authors report that the Office of Management and Budget (OMB) estimates these tax expenditures to be in excess of $200 billion in 2014. This chapter focuses on this tax treatment’s influences on housing location and consumption. The authors model the various trade-offs, including that the tax subsidy encourages overcrowding but also mitigates the tax penalty of working in areas with better paying jobs. Their simulations suggest that the existing tax treatment of housing causes $27 billion in deadweight loss from housing consumption, and an additional $15 billion in deadweight losses from locational decisions. The authors also estimate the impact of various reform proposals on the size of these efficiency losses.

In the fourth chapter, Chris Knittel offers an interesting historical perspective on the political economy of gas taxes, with a particular focus on the response to the oil shocks of the early 1970s. To a large extent, this chapter underscores the differences in how economists view economic policy versus how Congress and the public at large view the same issues. Following the oil price shocks, policymakers responded with price controls, rationing, fuel efficiency standards, alternative fuel mandates, and other “command and control” approaches. Economists are often quick to point out that these approaches tend to have greater efficiency costs than market-based approaches, such as Pigouvian taxes. In this chapter, the author uses polling data to show that, at the time, consumers preferred price controls and rationing to market-based solutions (including letting prices rise to clear the market). A key contribution of this chapter is to provide contrary evidence to the assertion that US policy relies on Corporate Average Fuel Economy (CAFE) standards and alternative fuel mandates because these policies obfuscate the true costs: if this were the motivation for these policies, it is difficult to then explain why other inefficient policies (such as price controls plus rationing) also have more support than gas taxes. This chapter raises a number of important questions for political economists to research in the future, and serves as a useful reminder that economic policy takes place in a political environment dominated by individuals who do not think like economists.
The final chapter in this volume is by Jules van Binsbergen, Robert Novy-Marx, and Joshua Rauh. These authors use the tools of financial economics to provide an estimate of the economic magnitude of the unfunded liabilities of the PBGC. This approach stands in sharp contrast to actuarial approaches to valuing liabilities in that it values the riskiness of funding situations rather than just the expected level. Put simply, financial economics methodology recognizes that bad financial market outcomes tend to occur at times when the marginal value of a dollar is particularly high, thus implying that PBGC underfunding is more likely to occur at times when it is more painful for taxpayers to provide incremental funding. Taking these market-based risk factors into account using an option pricing framework, the authors provide a baseline estimate of the PBGC’s financial exposure of $358 billion in unfunded liabilities. They explore a wide range of projection scenarios, but find that under nearly all of them, the financial market value of the insurance provided by PBGC exceeds that reported in the official PBGC exposure report.

For 28 years, the TPE conference has sought to facilitate a research-based conversation between leading NBER researchers and the Washington, DC policy community. Although the NBER does not make policy recommendations, the research that this conference disseminates is highly relevant to important economic policy discussions. Thus, this conference has a history of influencing both the academic literature and public policy. The NBER looks forward to continuing to serve an important role in creating and disseminating policy-relevant research.

Endnote

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