Introduction

Jeffrey R. Brown, University of Illinois at Urbana-Champaign and NBER

The 30th annual NBER Tax Policy and the Economy (TPE) conference was held on September 24, 2015, at the National Press Club in Washington, DC. Although our event coincided with the Pope’s visit to Washington, causing a few unexpected travel disruptions, our attendance and enthusiasm held strong.

The conference kicked off with a discussion of fiscal spillovers across states. Gerald Carlino and Robert Inman took up the decades-old question of whether state-level fiscal policies create spillovers for neighboring states and, thus, whether federal stimulus is needed to internalize these externalities. The authors do find evidence that states can use fiscal policy to influence job growth in their own state and also that such activities do result in fiscal spillovers. For example, they find a deficit cost per job in the state running the deficit ranges from $72,000 to $91,000 per job. When job spillovers to other states are included, however, the cost per job is much lower, suggesting a possible role for federal policy to account for these spillovers. The authors also examine specific types of policies and find that giving money directly to households or firms, either as tax cuts or intergovernmental transfers for low-income services, are most effective. One implication of these findings is that the American Recovery and Reinvestment Act (ARRA), which relied on project aid rather than solely on direct cash transfers, was a less effective fiscal stimulus than alternative policies.

Nathan Hendren presented theoretical work on what he labels the “policy elasticity.” He began by noting the observation of Austan Goolsbee that tax theory relies on compensated elasticities to estimate marginal excess burdens, whereas most empirical work estimates uncompensated elasticities. As a result, Nathan notes that “the prevailing
wisdom is that the causal effects of a policy change are not the behavioral responses that are desired for a normative analysis of that same policy change.” His paper then goes on to clarify how causal effects of policy can be used directly in making welfare evaluations of changes in government policy. He then applies this alternative framework to examine the welfare impact of several policy changes, including top marginal tax rates and the Earned Income Tax Credit (EITC), among others. A particularly useful feature of this approach is that it allows one to articulate the cost of transferring resources from one person to another. For example, he shows that one can use estimates of the marginal cost of public funds for raising money via an increase in top marginal rates and the marginal value of increasing the EITC to show that the US tax schedule implicitly values an additional $0.44–$0.66 to an EITC recipient as being equivalent to $1 to someone in the top tax bracket.

The third paper of the day was coauthored by eight individuals, five of whom assisted in the presentation (a TPE record!). The authors, hailing from the Treasury, Berkeley, and Chicago Booth, presented the results of an enormously difficult data exercise to trace through ownership and taxation of business income in the United States. They documented the dramatic increase in pass-through businesses, including partnerships and S-corporations, noting that these entities generate over half of all US business income. In addition to providing a wealth of interesting summary statistics, the authors find that pass-through income is substantially more concentrated than other business income among high earners. They also find that the average tax rate applied to this income is only 19%, much lower than the average tax rate paid by traditional corporations. They note that if pass-through income had maintained its low share of total corporate income from the 1980s, the total amount of tax raised would have been at least $100 billion higher per year, making this a very significant tax policy issue. Interestingly, they also find that 30% of the income earned by partnerships cannot be unambiguously traced to an identifiable, ultimate owner, a rather striking statistic.

The fourth paper presented at the conference was a five-author paper on property tax compliance using a pseudo-randomized experiment in Philadelphia. The authors were able to implement an experiment with actual Philadelphia taxpayers (or, more accurately, those who had failed to pay all their taxes). The authors provided supplemental letters to those who owed taxes, varying the framing of the communication.
For instance, one approach emphasized the likely punishment, whereas other approaches appealed to the need for tax dollars to provide city services or one’s civic duty to pay taxes. Interestingly, the authors found that appeals to provide services and civic duty led to higher rate of tax payment than a deterrence strategy. The authors noted that this experiment is an “encouraging first step toward introducing the new methodologies of tax compliance into the practice of city government finances.”

This was followed by Jeff Clemens’s discussion of cross-program budgetary spillovers of minimum wage regulations. He notes two distinct dimensions along which program linkages enter the program evaluation problem. First, he notes that the overall program landscape shapes the well being and response to a given policy change. For example, if an increase in minimum wages reduces employment, the effect on the well being of the newly unemployed will be affected by the extent to which their income loss is offset by unemployment insurance. Second, he notes that there are public budget channel effects. For example, minimum wage changes could affect everything from payroll tax receipts to EITC receipts to the corporate income tax payments of the targeted worker’s employer. Taking account of the many possible spillovers is a highly complex undertaking. Perhaps fortunately for those government agencies tasked with such revenue estimates, Clemens finds that the second-order effects are, in aggregate, rather modest.

In our final paper of the conference, Lucas David presented his joint work with Severin Borenstein on the distributional effects of tax credits for clean energy. Using tax return data, the authors find that these green tax expenditures have gone disproportionately to higher-income Americans. Specifically, they find that the bottom three income quintiles have received only about 10% of all credits, whereas the top quintile received about 60% of all the credits. These findings are quite important given the frequency with which distributional concerns influence environmental policies. Interestingly, the authors find that green tax credits are distributed much more reggressively than other market mechanisms—such as a carbon tax—for reducing greenhouse gas emissions.

As in prior years, these papers make significant contributions to both the academic literature in public finance and to the practice of economic policymaking. Regardless of one’s ideological preferences, most economists agree that policy should be informed and guided by rigorous research that helps policymakers understand both the intended and un-
intended consequences of economic policies. The NBER is honored to have contributed to this public good through 30 years of the Tax Policy and the Economy program.

Endnote

For acknowledgments, sources of research support, and disclosure of the author’s material financial relationships, if any, please see http://www.nber.org/chapters/c13686.ack.