Introduction

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The five papers in this issue of Tax Policy and the Economy are all directly related to important issues concerning U.S. taxation and transfers.

In the first paper, Edward L. Glaeser, Caitlin S. Gorback, and James M. Poterba examine the distributional implications of taxes on transportation such as gasoline taxes, highway tolls, charges for buses and light rail usage, and a vehicle-miles-traveled (VMT) tax, all of which address long-recognized problems of externalities from those forms of transportation. The authors note that gasoline taxes and highway tolls are regressive because their expenditures decline as a share of both total household expenditures and income as those quantities rise, which is part of the reason for their political unpopularity. They also note that the regressivity of the gasoline tax will rise over time as higher income and expenditure households shift to hybrid and electric vehicles, and hence reduce their gasoline usage per mile driven. Comparing a gasoline tax to a VMT tax, including a calculation of how a VMT tax will shift miles driven, the authors find the VMT tax to be relatively more progressive because it places some tax burdens are shifted to higher income households that drive very fuel-efficient vehicles. While the magnitude of the difference is currently small, they estimate it to rise as hybrid and electric vehicles become more widespread. But a VMT tax imposed on commercial vehicles, such as trucks, would be more regressive because lower expenditure households disproportionately consume the goods moved by that form of transport. The authors also provide new information on the distributional burden of taxes on public transportation, again finding the burden to vary with income and
expenditure class: lower income households disproportionately use buses but higher income households disproportionately use rail and air transportation.

Katarzyna Bilicka, Michael Devereux, and Irem Güçeri, in the second paper, address the long-standing problem of multinational companies (MNCs) who are able to shift taxable income to low-tax countries. Recent international discussions of a Global Minimum Tax (GMT) have shown the policy salience of this issue. The authors use a new data set on global patent applications by country which they are able to link to company ownership as well as the location of MNC subsidiaries. The authors find striking evidence of the shifting of such Intellectual Property (IP) to tax havens, in some cases by shifting ownership of IP to a low-tax jurisdiction and, in other cases, by cost-sharing agreements between the parent company and tax haven affiliates which facilitates profit shifting. A large share of patenting and patent ownership in the world is in large innovating countries. However, a disproportionately large share of patenting activity takes place in tax havens where little or no R&D takes place. Many IP transfers go from high-tax to low-tax jurisdictions early in the life of a patent. Further findings show that affiliates located in Europe have a high proportion of patent applications that end in tax havens, that tax havens play a particular role in patents with high predicted value, and that tax havens play a large role in MNCs with large subsidiary networks. These firms have subsidiaries that are likely to be subject to a GMT.

Mark Duggan, Audrey Guo, and Andrew C. Johnston conduct a new investigation of the role of experience rating in the Unemployment Insurance (UI) system. While past work has focused on imperfections in that rating system, Duggan and coauthors focus on the possible role of the current UI system in stabilizing the labor market through its penalties on firms with high rates of UI-eligible layoffs. Using a newly constructed data set, the authors construct a new
variable for the Marginal Tax Cost (MTC) of layoffs, equal to the average one-year increase in UI taxes a firm could be expected to pay. This depends on the tax schedule in each state’s experience rating system and on potential UI claims, and hence benefits, that the layoffs are expected to generate. The MTC varies across states, industries, and over time, and the authors exploit that variation to determine how variation in that cost affects the employment response by firms to exogenous firm demand shocks. The results show a strong and significant stabilizing response of the UI experience rating system, with, on average, the tax penalty reducing the firm adjustment to negative shocks by 11 percent. A rough calculation of the impact of experience rating in the Great Recession based on the results suggests that experience rating saved nearly a million jobs in that downturn.

In the fourth paper, David Altig, Laurence J. Kotlikoff, and Victor Yifan Ye examine how decisions about when to retire affect the amount of Social Security retirement benefits that will be received over the years after retirement. The authors note the widely-acknowledged problem that many individuals reach retirement age with little or no liquid assets to finance consumption during retirement and rely almost wholly on Social Security. However, the amount of Social Security retirement benefits an individual will receive for the rest of their life depends in critical ways on the actual date of retirement, because benefits increase, the later the individual retires (and increase in present value terms as well, up to a point). The authors study whether individuals could receive much more in retirement benefits were they to start their Social Security retirement benefits at later ages or suspend them at full retirement age and restart them at 70. Estimating not only retirement ages for existing retirees but retirement ages for future cohorts, the authors do a sophisticated calculation of how retiring at different ages will affect consumption and well-being over the rest of the lifetime, taking into account taxation,
other benefits, and a number of other key factors. Their results show that most retirees are retiring far too early to maximize their benefits from the program. Virtually all individuals 45-62 should wait until age 65 or later to retire. Indeed, 90 percent should wait until age 70, but only 10 percent do so. The amount of dollars in consumption spending lost by early collecting are large, about 17 percent for four-fifths of the population. The median loss in lifetime benefits for those 45-62 exceeds $182,000.

In the final paper, Jonathan Meer and Joshua Witter examine the potential impact of the Earned Income Tax Credit (EITC) on the labor force decisions of childless adult. The EITC, a program which provides a tax credit for workers, is one of the most important programs in the country for individuals with children. It has been shown to encourage additional labor force activity for many parents, especially single mothers. But there is also a small credit for childless individuals, and extending and expanding that credit has been widely discussed by policy makers in recent years. Childless workers constitute about 25 percent of taxpayers receiving an EITC credit, but the amount of the credit is quite small for those without children. The authors provide new evidence on whether childless workers increase their labor force attachment as a result of the credit, leveraging the feature that the credit becomes available to them at age 25. Conducting a careful study of how labor force attachment changes from just before to just after age 25, Meer and Witter find no evidence of any change in labor force participation or employment. The authors speculate that this low responsiveness could be a result of lack of information and understanding of the credit, or could be a result of the small credit amounts. They also suggest that childless individuals typically already have high levels of labor force attachment, much greater than those of low-income parents who appear to increase their levels of attachment.
because of the EITC, suggesting that further increases for the childless group may be less likely for this reason as well.