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Conference Time: 10/Feb/2016 2:48:04 pm GMT

Conference Agenda

Overview and details of the sessions of this conference. Please select a date or room to show only sessions at that day or location. Please select a single session for detailed view (with abstracts and downloads if available).

Hide Presentations
 Table View
 Authors
 More...

Session Overview

Date: Thursday, 20/Aug/2015

9:00am - 1:00pm

GIZ Master Class (for selected participants only)

RECONSIDERING THE EFFECTIVENESS OF ZERO-RATING OF VALUE-ADDED TAX IN SOUTH AFRICA

Ada Isobel Jansen, Estian Calitz

Stellenbosch University, South Africa

It has become widely accepted to zero-rate VAT to mitigate its regressivity. However, it is contestable whether zero-rating is the most cost-effective way of targeting the poor. South Africa has used VAT zero-rating for more than two decades, but the rich receive a bigger (absolute) benefit than the poor. Hence, this warrants a review of the policy.

This paper attempts to inform such a review by asking whether zero-rating should be considered (conceptually), and investigates the impact on the poor and tax revenue implications if zero-rating were to be removed. We explore the appropriateness of items currently being zero-rated, by calculating a weighted equity gain ratio for individual food items. We also attempt a simple cost-benefit analysis, and compare cost effectiveness of VAT zero-rating to social assistance programmes. We use data from the Income and Expenditure Surveys of SA, and statistics from National Treasury in our analysis.

[Jansen-RECONSIDERING THE EFFECTIVENESS OF ZERO-RATING OF VALUE-ADDED TAX-574.pdf](#)

Inequality Effects of Fiscal Policy: Analysing the Benefit Incidence on Health Sector, India

Kausik K. Bhadra

National Institute of Public Finance and Policy, India

Analysing inequality effect of fiscal policy is a rare area of research. Using the unit record data of recent NSS rounds on health, the paper analyses the benefit incidence of public health spending, categorised by region, gender and economic class. Morbidity (in-patient service delivery) data among quintile-wise MPCE classes across three Indian states – Bihar, West Bengal and Kerala - are examined to decipher whether the benefit incidence of public spending is pro-poor. The concentration curves reveal significant regional and gender differentials in access and utilisation of health services at sub-national levels of government of India. Kerala explicate a different scenario where poor 'voted with feet' from public sector. The co-existence of private and public service provisioning in health sector may be one of the reasons for this behavioural 'exit' in Kerala, however it is equally interesting to note the 'voice' elements when the targeting of public spending reveals more pro-rich.

[Bhadra-Inequality Effects of Fiscal Policy-562.pdf](#)

Rethinking Public Finance: Developing Institutions for Better Outcomes

Pedro Juca Maciel

Ministry of Finance, Brazil

The financial crisis of 2008 revealed the need for economists to rethink the failings present in economic policies to achieve sustainable growth with social well-being. This article proposes a framework for pointing out the institutional layouts related to public finance and to enhance the effectiveness of the performance of the public sector from an interdisciplinary approach. The main steps in public finance execution are juxtaposed with the implementation of the public policies and permits economists to discuss, from a broad view, many issues that are usually treated separately in the literature, such as macro vs. micro mechanisms; short vs. long run outcomes; economics vs. other areas of governmental studies issues. From that, this paper recommends principles for designing government institutions to achieve better governance and more effectiveness of the government in the economy.

[Maciel-Rethinking Public Finance-564.pdf](#)

Designing Policies in the Presence of Hawala Markets

Suranjali Tandon

National Institute of Public Finance and Policy, India

To deal with rising current account deficits, the government often uses instruments such as increase in customs tariffs. These are expected to induce an appreciation in the currency. In the presence of hawala markets which constitute an alternative payment mechanism, the control exerted by the customs tariffs is diluted, thereby reducing the effectiveness of this policy in controlling depreciation of the currency. The paper explores the impact of the existence of such a mechanism on the effectiveness of various policy instruments in influencing outcomes on the official foreign exchange markets and GDP.

[Tandon-Designing Policies in the Presence of Hawala Markets-565.pdf](#)

The effects of economic, financial and political developments on Iran's CO2 emissions

Sajjad Faraji Dizaji, Neda Al-Sadat Ousia

Tarbiat Modares University, Iran, Islamic Republic of

This study examines dynamic interrelationships and causality relationships among CO2 emissions, economic, political and financial variables in Iran. The results confirm the existence of long run relationship among CO2 emissions, energy consumption, GDP, financial development, trade openness and political development. The results of Granger causality based on VECM and also variance decomposition analysis confirm the existence of long run causality from these variables to CO2 emissions. Moreover the results show existence of short run causality from energy consumption, GDP and democracy to CO2 emissions. The estimation of long run and short run equations using ARDL approach indicates that the effects of GDP and energy on CO2 emissions are positive. The effects of democracy although are minor but they are negative in short run and positive in long run. Our results confirm the existence of an inverted U-shaped relationship between trade openness and CO2 emissions and also a U-shaped relationship between CO2 emissions and financial development.

[Faraji Dizaji-The effects of economic, financial and political developments-566.pdf](#)

Foreign Aid, Governance And Economic Growth In Sub-Sahara African Countries: Does A Cap Fits All?

Adeniyi Jimmy Adedokun

McPherson University Nigeria, University of Ibadan Nigeria

This study revisits aid effectiveness debate using more recent data. Adopting the neoclassical framework, the study investigates the relationships among foreign aid, governance and economic growth in Sub-Saharan African (SSA) countries. Results show that good governance improves aid effectiveness in SSA. Also, it is evidenced that one cap does not fit all in SSA, that is, heterogeneity matters. The impact of aid is felt differently across groups of countries.

 [Adedokun-Foreign Aid, Governance And Economic Growth In Sub-Saharan African Countries-567.pdf](#)

Property Taxation in Sierra Leone: Practices, Performance and Options for Reform**Adams Tandorswefa Tommy**¹, **Riel Franzsen**², **Samuel S. Jibao**²¹University of Pretoria, Sierra Leone; ²University of Pretoria, African Tax Institute

This article on issues related to property taxes critically analyses the real property tax system in Sierra Leone as legislated, practiced, its performance since the resuscitation of the decentralization programme, key implementation challenges and prospects for future reform.

The property cadastre has increased the property tax revenues of local governments. However, improving equity, efficiency in addition to revenue adequacy criteria into the system needs to be seriously considered. It is quite evident that the valuation process used has been much less efficient. Though the tax system is taught to be progressive it is also important to bring objectivity criteria into determining key parameters of the system which are critical to assessing the overall property tax revenues. In addition, expanding the scope tax base to include the taxation of empty and unproductive land will further improve on the equitable and efficient distribution and use of land

 [Tommy-Property Taxation in Sierra Leone-568.pdf](#)

Economic growth and nonrenewable resources: An empirical investigation**Amos James Ibrahim-Shwillima**

Waseda university, Japan

In this paper, we investigate the role of nonrenewable resources in economic growth from 1995–2010. The surprising result is that the share of nonrenewable resource exports in 1996 GDP was positively associated with subsequent economic growth. In fact, for the period under study, we found no strong evidence of the resource curse, after controlling for other important determinants of economic growth. For the period under study, most economies were open and followed policies that enabled large flows of foreign investment between economies. Our finding suggests that public institutions—measured by using an index of government effectiveness—are of paramount importance to economic growth. This suggests that if a resource-rich economy needs a greater contribution from its resources, it should improve its public- and private-sector institutions.

 [Ibrahim-Shwillima-Economic growth and nonrenewable resources-569.pdf](#)

Determinants of tax Revenue Performance:Ethiopian Federal Government**Belay Zewude Ayyele**

National Bank of Ethiopia, Ethiopia

Since Ethiopian is one part of developing country from Africa, pattern of tax revenues and economic growth across countries has become a significant concern to it. This study investigated the determinate of tax revenue performance in Ethiopian federal government .The variable used were Foreign direct investment ,public debt ,openness ,foreign aid ,inflation and growth domestic product diagnostic test stationarity test have been undertaken. The study reveals positive relationship among growth domestic product, public debt foreign direct investment, openness, and inflation with tax revenue performance and they are statically significant except inflation. But, foreign aid is negatively related to tax revenue performance. The trend of tax collection in Ethiopia is inconsistently changing . As example, tax revenue was increased starting from 2003.

 [Ayyele-Determinants of tax Revenue Performance-570.pdf](#)

An Analysis of Convergence in Publix Expenditure in India: A Spatial Dynamic Panel Approach**Sandhya Garg**

Indira Gandhi Institute of Development Research, Mumbai, India, India

This paper analyses convergence in total per-capita expenditure and its three categories such as: education expenditure, health expenditure and development expenditure across Indian states using both spatial and non-spatial approaches. India, a quasi-federal structure specifies the provisions of inter-governmental transfers to sub-national governments to cushion their inadequate expenditure capacity. Some transfer categories are distributed according to devolution criterion and some are considered to be discretionary. This study examines the role of transfers and its categories on convergence. Results show that there exists conditional convergence in all expenditure categories. Inter-governmental transfers are found to be a significant determinant of expenditure growth which leads to faster convergence. Formula transfers that are targeted more towards poor states, have positive and significant effect on expenditure growth than discretionary transfers. Spatial spillovers are found to be significant in case of all expenditure categories except total expenditure.

 [Garg-An Analysis of Convergence in Publix Expenditure in India-571.pdf](#)

Appetizing or Overfeeding? Empirical Analysis of the Incentive Effects of an untied grant in Benin**Rose Camille Vincent**

Hertie School of Governance, Germany

In recent decades, there has been a significant increase in fiscal transfers to local governments in developing countries. Yet, numerous scholars have depicted grants as windfall resources that distort local fiscal capacity and induce rent-seeking behaviors. Using Benin as a case study, this paper investigates the incentive effects of an untied grant by analyzing patterns in own-revenue collection and expenditure of municipal governments. The identification strategy accounts for regional disparities and corrects the endogeneity bias of the grant. The overall results suggest, on the one hand, a crowd-in effect in own-revenue collection, which contradicts most empirical findings in that field; on the other, there

is evidence of a large increase in expenditure along with a sharp fall in self-financing, suggesting a “flypaper effect”. Taken together, the long-run impact of the grant is ambiguous. The paper, therefore, recommends an output-based mechanism, as to enhance expenditure accountability while preserving local governments’ spending autonomy.

 [Vincent-Appetizing or Overfeeding Empirical Analysis of the Incentive Effects of an untied grant-573.pdf](#)

3:00pm - 3:30pm**Opening Ceremony**

Speakers:

Michael P. Devereux (Oxford University), IIPF President

Colm Kelly (Vice Chairman, Operations) for the PwC Network

Mihir A. Desai (Harvard University): "**Taxation in a Global Economy**"**Ed Burke Theatre****3:30pm - 4:30pm****Plenary I: PwC Panel on “Taxes and Corporate Social Responsibility”**Session Chair: **Mihir A. Desai**, Harvard University

Panelists:

Eamonn O’Dea (Office of the Revenue Commissioners, Ireland),

Eelco van der Enden (Partner, PwC, Netherlands)

Ed Burke Theatre**5:00pm - 7:00pm****Climate Change**

A

Room 4050B

The regional impact of a CO2 tax on gasoline demand: a spatial econometric approach

Massimo Filippini, Fabian Heimsch

USI ETH, Switzerland

In order to mitigate climate change, several countries around the world have introduced or are planning a CO2 tax on energy consumption. The effectiveness of such a tax depends on the level of the short- and long-run price elasticity. Moreover, acceptance of a CO2 tax by a society depends on both the distributional effects of such a tax among households and its spatial effects among regions.

In this paper, the regional impact of a hypothetical CO2 tax on gasoline consumption in Switzerland is analysed by estimating a demand function for gasoline using panel data from 547 Swiss municipalities from 2001 to 2008. Overall, our spatial econometric analysis shows that the tax burden of a CO2 tax will be higher in rural areas than in urban areas.

 [Filippini-The regional impact of a CO2 tax on gasoline demand-137.pdf](#)

Replacing rubber plantations by rain forest in Southwest China – Who would gain and how much?

Michael Ahlheim¹, Oliver Froer², Tobias Boerger³

¹University of Hohenheim, Germany; ²University of Koblenz-Landau; ³Plymouth Marine Laboratory

Especially in developing and emerging countries we often observe a fundamental conflict between the economic exploitation of land and environmental preservation. Rubber cultivation in Xishuangbanna Prefecture in China's Yunnan Province has triggered an impressive economic development but it is also associated with severe environmental problems. Rubber plantations are encroaching the indigenous rainforests at a large scale and a high speed in Xishuangbanna, thereby endangering rare plant and animal species, disturbing natural water management and even the microclimate in this region. This study aims at an assessment of the environmental benefits accruing from a reforestation project partly reversing the deforestation that has taken place over the past years. A Contingent Valuation survey was conducted in Xishuangbanna to elicit local residents' willingness to pay for this program. It is shown that local people's awareness of the environmental problems is quite high and that there is a positive WTP for the suggested program.

 [Ahlheim-Replacing rubber plantations by rain forest in Southwest China – Who would gain and how much-436.pdf](#)

Self-enforcing Intergenerational social contract as a source of Pareto improvement and Emission mitigation

Nguyen Thang DAO¹, Kerstin BURGHAUS¹, Ottmar EDENHOFER^{1,2,3}

¹Mercator Research Institute on Global Commons and Climate Change, Germany; ²Potsdam Institute for Climate Impact Research;

³Technische Universität Berlin

We consider in an OLG model with environmental externality a contract between successive generations, whereby current working generation privately invest a share of their labor income in pollution mitigation in exchange for a transfer to their old-age capital income paid by the next generation. The existence of a contract which is Pareto-improving compared to an equilibrium without contract requires a minimum level of income. Nash bargaining solution leads to a steady state with lower emission stock and higher income compared to those without contracts. Notably, delaying the implementation of social contracts may have considerable welfare costs: Income inevitably falls below the threshold in finite time so that Pareto improving mitigation is no longer possible. We also study a non-cooperative setting to show that there exist mitigation transfer schemes which are both Pareto improving and give no generation an incentive to deviate from the provisions of the contract.

 [DAO-Self-enforcing Intergenerational social contract as a source-524.pdf](#)

5:00pm - 7:00pm
Beckett Theatre 2

Corporate Taxation and Patterns of Investment

A

Greenfield versus Merger & Acquisition FDI: Same Wine, Different Bottles?

Ronald B. Davies², Rodolphe Desbordes¹, Anna Ray³

¹University of Strathclyde, United Kingdom; ²UCD; ³UP1

Relying on a large foreign direct investment (FDI) transaction level dataset, unique both in terms of disaggregation and time and country coverage, this paper examines patterns in greenfield (GF) versus merger & acquisition (MA) investment. Although both are found to seek out large markets with low international barriers, important differences emerge. In particular, MA exhibit a more opportunistic behaviour by being more sensitive to short-run changes, such as a currency crisis, whereas GF is relatively more driven by long-run factors, such as origin-country technological development or comparative advantage. Thus, they are likely to respond differently to policies intended to attract FDI.

 [Davies-Greenfield versus Merger & Acquisition FDI-245.pdf](#)

Are Innovative Firms Financially Constrained? Evidence from R&D Tax Incentives in OECD Countries

Sophia Chen¹, Estelle Dauchy²

¹International Monetary Fund; ²New Economic School, Russian Federation

This paper jointly examines the impact of innovation on the capital structure and the source of financial constraints for corporate innovations. We design a quasi-natural experiment approach by collecting a comprehensive dataset on the staggered changes of R&D tax incentives across OECD countries and over time. By generating plausibly independent variation in firms' incentive to invest in R&D, we are able to assess the importance of financing constraints for corporate innovations. We then propose a new measure of access to external financing using past patent ownership as a proxy for innovation quality, which allows us to estimate the differential effect of internal and external financing constraint. Our results shed light on the empirical importance of links between innovation and capital structure, in particular, whether innovative firms financially constraint, internally or externally, whether innovation quality alleviates financial constraint, and what type of R&D tax policies are likely to be beneficial.

 [Chen-Are Innovative Firms Financially Constrained Evidence-326.pdf](#)

The Investment Effect of Taxation - Evidence from a Corporate Tax Kink

Anne Brockmeyer

World Bank, United States of America

This paper exploits bunching of firms at a tax kink as quasi-experimental variation to identify the effect of a tax rate change on investment. Firms with a taxable income slightly above the kink have an incentive to reduce their income to bunch at the kink, and increasing investment is one possible strategy for that. Building on the standard bunching framework, I estimate the frequency distribution of firms around the kink, and the share of bunchers with excess investments. I apply this approach to administrative tax return data for the universe of UK firms from 2001-2007, and show that investment significantly responds to the kink. I find large and significant spikes in the share of capital investors and median capital costs at the 10k kink. The spikes are larger in 2002-2005 when the kink is larger, and for quickly depreciating capital items, which yield larger tax reductions.

 [Brockmeyer-The Investment Effect of Taxation-168.pdf](#)

Business capital accumulation and the user cost: is there an aggregation bias?

Serena Fatica

European Commission, Belgium

The answer is yes. Using data from 23 market economy industries across 10 OECD countries over the period 1984-2007 we document that the homogeneity assumption underlying empirical models for aggregate capital accumulation may lead to serious misspecification. Thus, we propose a fully disaggregated approach – by asset types and industries – to estimate the responsiveness of investment to the tax-adjusted user cost. When all the sources of heterogeneity are accounted for, we do find that capital accumulation is significantly affected by the cost variables in the long run, although the size of the substitution elasticity varies across assets.

 [Fatica-Business capital accumulation and the user cost-544.pdf](#)

5:00pm - 7:00pm
Beckett Theatre 1

Demographics, Inequality and Development A

Genetic Distance and Fiscal Capacity

Dharmika Dharmapala

University of Chicago, United States of America

A central question in comparative economic development relates to the causes and consequences of the extensive cross-country variation in governments' fiscal capacity. This paper constructs a novel measure of the genetic distance between ruling elites and the majority of the population in the year 1900 by using historical sources to determine the ethnicity of ruling elites and of populations in 1900. These groups are then mapped to existing data on bilateral genetic distances between countries and populations. This generates a measure of "elite-population genetic distance" (EPGD) in 1900 for each of 228 present-day countries and territories. The primary finding is that EPGD is negatively related to revenue as a percentage of GDP, averaged over 2004-2013, controlling for various relevant country characteristics and region fixed effects. This relationship may be attributable to unobserved and persistent variation in state-building capabilities across societies. However, it is robust to controlling for state antiquity.

[Dharmapala-Genetic Distance and Fiscal Capacity-476.pdf](#)

Demographic transition and political stability: Does corruption matter?

Mohammad Reza Farzanegan¹, Stefan Witthuhn²

¹Philipps-University of Marburg, CNMS, Germany & CESifo; ²Philipps-University of Marburg, CNMS, Germany

A demographic transition resulting from an increase in the size of the young working age population can be a blessing or a curse for economic performance. We focus on the political stability effects of a larger youth population and hypothesize that corruption matters in this nexus. Using panel data covering the period of 2002–2012 for more than 150 countries, we find a negative interaction effect between the relative size of the youth population (17-25 years old) within the total working age population (15-64 years old) and corruption on political stability. This finding is robust, controlling for country and time fixed effects and a set of control variables that may affect stability. The negative interaction term between corruption and the youth population remains robust when we control for the persistency of political stability and the possible endogeneity of the main variables of interest through dynamic panel data estimations.

[Farzanegan-Demographic transition and political stability-102.pdf](#)

Income inequality, capitalism and ethno-linguistic fractionalization

Jan-Egbert Sturm¹, Jakob de Haan²

¹KOF, ETH Zurich, Switzerland; ²DNB and RuG, the Netherlands

We examine the relationship between capitalism and income inequality for a large sample of countries using an adjusted economic freedom index as proxy for capitalism and Gini coefficients based on gross-income as proxy for income inequality. Our results suggest that there is no robust relationship between economic freedom and income inequality. In addition, we analyze the relationship between income redistribution (measured by the ratio of the income distribution resulting from market processes and the income distribution after redistribution) and ethno-linguistic fractionalization. We find that the impact of ethno-linguistic fractionalization on income redistribution is conditional on the level of economic freedom: countries that have a high degree of fractionalization have less income redistribution, while capitalist countries that have a low degree of fractionalization have more income redistribution.

[Sturm-Income inequality, capitalism and ethno-linguistic fractionalization-115.pdf](#)

Top Incomes and the Glass Ceiling

Anthony Atkinson¹, Alessandra Casarico², Sarah Voitchovsk³

¹Nuffield College Oxford, INET at Oxford Martin School; ²Bocconi University and CESifo; ³Melbourne Institute of Applied Economic and Social Research, University of Melbourne

How many of the top 1 and 10 per cent are women? A great deal is known about gender differentials in earnings, but how far does this carry over to the distribution of total incomes, bringing self-employment and capital income into the picture? We investigate the gender divide at the top of the income distribution using tax record data for a sample of eight countries with individual taxation. We show that women are under-represented: they account for between a fifth and a third of those in the top 10 per cent. Higher up, the proportion is lower. The presence of women has increased over time, but the rise becomes smaller at the very top. Examination of the shape of the distribution shows that women disappear faster than men as income increases. Income composition has changed significantly over time, underlining that it is not sufficient to look only at earnings.

[Atkinson-Top Incomes and the Glass Ceiling-296.pdf](#)

5:00pm - 7:00pm
Ed Burke Theatre

Elasticity of Taxable Income A

The Elasticity of Taxable Income and Income-shifting: What is Real and What is Not?

Jarkko Harju¹, Tuomas Matikka²

¹VATT, Finland; ²VATT, Finland

Previous literature shows that income taxation significantly affects the behavior of high-income earners and business owners. However, it is still unclear how much of the response is due to changes in real economic activity, and how much is caused by tax avoidance. In this paper we distinguish between real responses and income-shifting between tax bases. We show that separating income-shifting responses can largely affect the welfare analysis of income taxation. In our empirical example we find that income-shifting accounts for a majority of the overall elasticity of taxable income among Finnish business owners and significantly decreases the marginal excess burden.

[Harju-The Elasticity of Taxable Income and Income-shifting-246.pdf](#)

Sufficient Statistic or Not? The Elasticity of Taxable Income in the Presence of Deduction Possibilities

Philipp Dörrenberg¹, Andreas Peichl², Sebastian Siegloch³

¹ZEW, IZA; ²ZEW, University of Mannheim, IZA, CESifo; ³University of Mannheim, ZEW, IZA, CESifo

The elasticity of taxable income (ETI) is often interpreted as a sufficient statistic to assess the welfare costs of taxation. We show that this assertion does no longer hold for tax systems with deduction possibilities if (i) deductions generate externalities and (ii) deductions are responsive to tax rate changes. While the first condition should arguably hold for almost any imaginable tax deduction, we provide a thorough empirical examination of the second condition. Relying on rich German panel data from administrative tax records, we exploit several tax reforms that were implemented in Germany between 2001 and 2008. Our baseline estimates indicate an overall ETI of 0.49 and an elasticity of deductions with respect to the net-of-tax rate of -2.80. Given that the majority of deductions in the German income tax system generate externalities, our nonzero deduction elasticity suggests that the ETI is not sufficient to calculate the welfare cost of taxation.

[Dörrenberg-Sufficient Statistic or Not The Elasticity of Taxable Income-127.pdf](#)

The Polish business "flat" tax and its effect on reported incomes: a Pareto improving tax reform?

Wojciech Kopczuk

Columbia University

Introducing a flat-rate income tax is a popular reform proposal. The 2004 tax reform in Poland implemented an optional broad-based low-rate "flat" tax for business incomes. Taxpayers selecting the flat tax treatment had to give up most tax preferences (thereby generating variation in incentives to adopt) but benefited from the lower tax rates. For the highest income taxpayers, the marginal tax rate fell from 40% to 19%. Relying on a large panel of individual tax return data, I demonstrate massive increases in reported incomes that result in small tax revenue consequences despite large reductions in tax rates. Conservative estimates indicate that a suitably

designed at tax option would increase revenue. The responses are most likely operating through reduction in tax avoidance or participation in the gray economy and imply that when the avoidance margin is responsive, a reform involving base-broadening combined with marginal tax rate reductions that allows taxpayers to self-select can be Pareto improving.

[Kopczuk-The Polish business flat tax and its effect on reported incomes-218.pdf](#)

Time-saving goods, time inequalities and optimal taxation

Cristian F Sepulveda

Tulane University, United States of America

This paper introduces the concept of time-saving goods into the theory of optimal taxation. Time-saving goods allow the consumer to reduce the time devoted to home labor (e.g. eating out at a restaurant instead of cooking at home). Assuming that goods offering greater time savings are more expensive, high income individuals are better able to purchase time savings than low income individuals. As a result, low income individuals generally can enjoy less leisure. Contrary to previous results suggesting that commodity tax rates should increase with the time used in consumption, this paper shows that the tax system should instead favor market goods that offer greater time savings. This rule must be combined with the classic Corlett and Hague rule (goods more complimentary with leisure should bear higher tax rates), but the latter is shown to become less relevant as the level of income decreases.

[Sepulveda-Time-saving goods, time inequalities and optimal taxation-377.pdf](#)

5:00pm - 7:00pm
Room 4047

Electoral Politics and Public Spending

A

The Politics of Chequebook Federalism: Can Electoral Considerations Affect Federal-Provincial Transfers?

Marcelin Joanis^{1,2}

¹Polytechnique Montréal, Canada; ²CIRANO, Canada

This paper adopts the perspective of second-generation fiscal federalism theory to provide an empirical assessment of Canada's intergovernmental fiscal arrangements. In the context of the literature on the political economy of intergovernmental grant programs, it examines the influence of political considerations on the evolution of the Canadian fiscal arrangements under the *Constitution Act of 1982*. Fixed-effect regression results exploiting data from the 1982-2012 period show a statistically significant relationship between changes in both federal and provincial electoral variables and changes in a province's total federal transfer revenues. Changes to social transfers appear to be more reactive to changes in the political environment than do changes in equalization transfers.

[Joanis-The Politics of Chequebook Federalism-368.pdf](#)

Determinants of Budget Allocation: Evidence from the Performance Budgeting Reform in Korea

Nowook Park

Korea Institute of Public Finance, Korea, Republic of (South Korea)

The purposes of this paper are two folded: First, this paper examines whether the provision of performance information in budgetary process can change the budget allocation by analyzing results from the performance-oriented budgeting in Korea. Second, it tries to identify factors affecting budget allocation, such as political factors and characteristics of programs.

(1) After controlling other factors, this paper finds strong correlations between performance information and budget allocation at every stage of budgetary process, particularly during early period of implementation.

(2) It also finds suggestive evidence that the provision of performance information changed budget allocation compared to one without performance information.

(3) Rigor of performance-oriented budgeting has evolved through the interaction of the budget authority's zeal, fiscal situations and agencies' strategic behavior.

(4) Preliminary results show political factors affect budget allocation by influencing program review results.

[Park-Determinants of Budget Allocation-394.pdf](#)

Self-preserving Leviathans: Evidence from Regional-level Data

Gunther Markwardt^{1,3}, Jan Kluge², Christian Thater²

¹Dresden University of Technology, Germany; ²ifo Dresden; ³BTU Cottbus

This paper investigates the impact of the intensity of political competition on the leviathan behavior by political incumbents. Using panel data from German municipalities, we test whether the relative political strength of parties in local councils influences the spending behavior of officeholders. We find only weak evidence that strong officeholders (with weak political opponents) exhibit leviathan behavior in total government spending. Additionally, we test for political budget cycles at the local level. Here, we find strong empirical evidence that the spending pattern during a legislative period depends on the distribution of power in local councils. In municipalities with weak political competition, the public spending reaches a peak in election years. The political incumbents act as self-preserving leviathans. If officeholders face politically strong opponents, they do not initiate a political budget cycle.

[Markwardt-Self-preserving Leviathans-430.pdf](#)

Overlapping Political Budget Cycles

Dirk Foremny², Ronny Freier³, Marc-Daniel Moessinger¹, Mustafa Yeter¹

¹ZEW Mannheim; ²Institut d'Economia de Barcelona (I.E.B.) and University of Barcelona; ³German Institute for Economic Research (DIW Berlin) and Free University Berlin

We advance the literature on political budget cycles by testing for cycles in expenditures for elections in the legislative and the executive. Using municipal data, we can identify these cycles independently for the two branches, evaluate the effects of random overlaps, and account for general year effects. We find sizable and significant effects in expenditures before elections for the legislative and even larger effects before joint elections. In the case of overlapping elections, we show that it is important whether the executive incumbent re-runs. To account for the potential endogeneity associated with this decision, we apply an IV approach based on age and pension eligibility rules.

[Foremny-Overlapping Political Budget Cycles-139.pdf](#)

5:00pm - 7:00pm
Room 4050A

Fiscal and Monetary Union

A

Fiscal Rule Infringement Risks: A Stochastic Characterization of EMU Budget Balances and Their Discipline

Wouter van der Wielen

KU Leuven, Belgium

With the recent debt crisis, the necessity of effective measures safeguarding fiscal sustainability has become patent, leading to an intense debate. Most of the debate focuses on strengthening fiscal rules and restoring imbalances through austerity measures. In this paper I address two issues imperative for measures to succeed: uncertainty and policy reactions. Specifically, I apply a VAR model to characterize the shocks in macroeconomic drivers. In combination with the estimated fiscal reaction functions, this allows me to derive the distribution of the fiscal realizations' uncertainty. Additionally, the model quantifies fiscal rule infringement risks and the distribution of the adjustments to restore sustainability. It thus lends empirical support to a recent literature emphasizing uncertainty as essential in the appraisal of a country's fiscal position. Results suggest that Italian public finances are typified by higher intrinsic uncertainty than its European counterparts. This may impel enforcing stricter surveillance to hedge against disadvantageous outcomes.

[van der Wielen-Fiscal Rule Infringement Risks-260.pdf](#)

Limited Liability and the Sovereign Default Problem in the Eurozone

Nadjeschda Katharina Arnold

Center for Economic Studies, Germany

In light of the euro crisis, this paper handles the questions whether, and if so, how the formation of a monetary union affects debt levels, interest rates and welfare of its member states. It sets up a model in which the benevolent governments of countries decide on their bond issuance before risk neutral agents choose portfolios consisting of these bonds and other assets. In the counterfactual situation in which the countries have not formed a monetary union and address default problems through inflation, debt issuance is optimal since the governments have to offer investors an interest premium for the inflation risk. If a monetary union is able to credibly commit to no bailouts, its formation will leave the equilibrium unaffected since the inflation risk will be replaced with a restructuring risk. If it is not, its formation will increase debt levels, equalise interest rates and decrease welfare of member states.

 [Arnold-Limited Liability and the Sovereign Default Problem-266.pdf](#)

Crisis, Austerity and Automatic Stabilization**Mathias Dolls¹, Clemens Fuest^{1,2}, Andreas Peichl^{1,2,3}, Christian Wittneben¹**¹Center for European Economic Research (ZEW), Mannheim, Germany; ²University of Mannheim, Germany; ³ISER, Essex, UK

We analyze how reforms of tax-benefit systems in the period 2007-2013 have affected the automatic stabilization capacity for households as well as government budgets in the EU-27 based on harmonized European micro data and counterfactual simulation techniques. Factors like unemployment benefits or (progressive) income taxes can stabilize individual (and aggregate) income and smooth consumption demand in case of an income and unemployment shock. Our analysis allows to disentangle automatic changes in net government intervention from those that take place after explicit government legislature (discretionary changes) as well as changes in actual incomes and behavioral responses.

We find automatic stabilizers to be generally heterogeneous across countries---both in levels and in terms of policy changes over the crisis. Stabilization coefficients vary from less than 25% in Eastern European countries to almost 60% in Belgium, Germany, and Denmark.

 [Dolls-Crisis, Austerity and Automatic Stabilization-398.pdf](#)

Commodity Taxation in Large Open Economies in the presence of Unemployment**Fabio Antoniou¹, Panos Hatzipanayotou², Nikos Tsakiris¹**¹University of Ioannina Greece; ²Athens University of Economics and Business

We construct a perfectly competitive general equilibrium model of two large and symmetric countries, producing tradable commodities, and a public consumption good. Destination or origin-based taxes levied on the consumption of the tradable goods. An institutional minimum wage above its market clearing level leads to involuntary unemployment in both countries. We derive the Nash equilibrium consumption taxes under the two taxation principles and compare them to their cooperative rates and to their rates when countries are small. We demonstrate that terms of trade effects do not exist under destination-based taxation, while they do under origin-based. Both taxation principles lead to ambiguous employment externalities. Finally, Nash equilibrium destination-based taxes are inefficiently low when the exporting sector in each country is non-labor intensive. The Nash equilibrium origin-based taxes can either be higher or lower than the corresponding cooperative rates.

 [Antoniou-Commodity Taxation in Large Open Economies in the presence-357.pdf](#)

5:00pm - 7:00pm
Room 5052

Health I

A

Leave the drama on the stage: The effect of cultural participation on health**Lars Thiel**

University of Wuppertal, Germany

The aim of this study is to estimate the causal effect of cultural participation on physical and mental health. Using individual-level data from Germany, we employ propensity-score matching methods. Treatment is defined as visiting cultural events at least once a month. The participation equation includes a rich set of personal characteristics that cover the respondents' demographic and social background, social capital and leisure-time activities, health-related lifestyle, personality and childhood conditions related to arts activities in adulthood. We find that frequent cultural-event visits have a positive effect only on mental health. This result is robust to reverse causality. If we take time-invariant unobserved heterogeneity into account, the estimate becomes statistically insignificant. However, we find positive mental-health effects of even low levels of cultural participation compared to non-attendance. Our results may yield important insights on the effectiveness of arts participation as a means to reduce social inequalities in health.

 [Thiel-Leave the drama on the stage-173.pdf](#)

Is it good to be too light? The consequences of birth weight thresholds in hospital reimbursement systems.**Simon Reif¹, Sebastian Wichert², Amelie Wuppermann²**¹University of Erlangen-Nuremberg, Germany; ²University of Munich, Germany


Birth weight manipulation is common in per-case hospital reimbursement systems, in which hospitals receive more money for otherwise equal newborns with birth weight just below compared to just above specific birth weight thresholds. These thresholds could further result in differential treatment of newborns as the hospitals receive more money for these cases and as medical guidelines suggesting differential treatment may coincide with the thresholds. We examine how birth weight thresholds in German hospitals are related to quantity and quality of care using an administrative claims dataset on the universe of hospital births in Germany for the years 2005-2011. Our results indicate that birth weights are manipulated more often for more fragile newborns. Furthermore, newborns just below the thresholds receive more care and are more likely to survive despite their higher fragility. This suggests that low birth weight newborns profit from having low birth weight (or from being fragile).

 [Reif-Is it good to be too light The consequences of birth weight thresholds-332.pdf](#)

Health consequences of starting a career on a fixed-term contract**Wolfgang Auer**

ifo Institute, Germany

We study the short- to medium-run effects of starting a career on a fixed-term contract on subsequent health outcomes. Our empirical analysis is based on rich data from the German Socio-Economic Panel. The main results are: (i) Women react to fixed-term employment at the beginning of their career by lower mental health in the short run. This relationship is driven by the subjective perception of stress and pressure in these jobs, fades out over time, and is strongest in the sample of women with secondary education. (ii) Physical health of women is not affected at all. (iii) Economic uncertainty due to fixed-term employment has no future consequences for men's mental and physical health. We argue that these findings are robust to several sensitivity tests as well as potential endogeneity threats.

 [Auer-Health consequences of starting a career on a fixed-term contract-501.pdf](#)

The design of insurance coverage for medical products under imperfect competition**David Bardey¹, Helmuth Cremer², Jean-Marie Lozachmeur²**¹University of Los Andes (Bogota, Colombia); ²Toulouse School of Economics, France

This paper studies the design of health insurance with ex post moral hazard, when there is imperfect competition in the market for the medical product. The insurance contract specifies two types of copayments: an ad valorem coinsurance rate and a specific (per unit) copayment. By combining both copayment rates in an adequate way the insurer can effectively control the producer price, which is then set so that the producer's revenue just covers fixed costs. Consequently, a suitable regulation of the copayment instruments leads to the same reimbursement rule of individual expenditures as under perfect competition for medical products. Additional rationing of coverage because of imperfect competition as advocated by Feldstein (1973) is thus not necessary. Interestingly the optimal policy closely resembles a reference price mechanism in which copayment rates are low (possibly negative) and coinsurance rates are high.

5:00pm - 7:00pm
Swift Theatre

 [Bardey-The design of insurance coverage for medical products under imperfect competition-187.pdf](#)

IP Box Regimes

Session Chair: **Andrew Lyon**, PwC
A

Patent Boxes and Patents Location Decisions

Annette Alstadsaeter², **Salvador Barrios**¹, **Gaetan Nicodeme**¹, **Agnieszka Skonieczna**¹, **Antonio Vezzani**¹

¹European Commission, Belgium; ²University of Oslo

We analyze how the implementation of patent boxes affects the holding of IP across MNE's subsidiaries in various countries. We utilize recent and rich firm-level data for the period 2000-2012 on 2,500 multinationals and their group ownership and consider the determinants of patent registration across a large sample of countries. Importantly we account for the direct fiscal advantage of registering patents in a patent box country as well patent-box regimes specific features with regards to conditionality on performing research and the definition of the tax base to which the reduced corporate income tax rate applies. We find that patent boxes have a strong effect on attracting patents due to the favourable tax treatment that they offer. This effect varies however across sectors and with the detailed characteristics of patents.

 [Alstadsaeter-Patent Boxes and Patents Location Decisions-415.pdf](#)

Introducing an IP-Licence Box in Switzerland: Quantifying the Effects

Michael Stimmelmayer, **Marko Koethenbuerger**, **Florian Chatagny**

ETH Zurich, Switzerland

Over the last years, the pressure on Switzerland to reform the tax treatment of companies with a special cantonal tax status has increased substantially. One element in the current discussion regarding the reform of the corporate tax system is the introduction of a licence box, in which income from patents, licences and trademarks are taxed at a lower rate. In this paper, we use a computable general equilibrium model to quantify the effects of introducing a licence box at the cantonal level in Switzerland. The results reveal that the licence box, combined with a reduction in the cantonal profit tax rate, limits the outflow of the tax base of those companies that are initially subject to the special tax treatment. However, the reduction of the cantonal profit tax rate and the fact that ordinarily taxed companies also benefit from the introduction of the licence box imply overall tax revenues to decrease.

 [Stimmelmayer-Introducing an IP-Licence Box in Switzerland-448.pdf](#)

Motivating innovation in a knowledge economy with tax incentives

Diego d'Andria, **Ivan Savin**

University of Jena, Germany

We propose an agent-based model to explore the effects of two distinct tax policies on innovation in a pure knowledge economy: a "patent box" incentive and a tax incentive on compensation earned by workers as profit sharing. In contrast to the conventional assumption that firms decide on whether to innovate or not, we propose that this decision is actually taken by their employees. We compare the two tax incentives under several distinct specifications and find that the tax incentive on profit sharing is more efficient than a "patent box" incentive when the role of capital investments in R&D is negligible. With R&D investments in the form of a capacity constraint, both tax incentives are found to play a role in fostering innovation. In addition we find important effects on the incentives' relative efficacy due to labor mobility and due to the ability of firms to benefit from knowledge spillovers.

 [d'Andria-Motivating innovation in a knowledge economy with tax incentives-208.pdf](#)

International Tax Policy, Acquisition of Innovative Assets, and Innovative Activity

Sebastian J Bradley¹, **Estelle Dauchy**², **Leslie A Robinson**³

¹Drexel University, United States of America; ²New Economic School, Russian Federation; ³Tuck School of Business at Dartmouth, United States of America

This project aims to investigate the extent to which international tax policy distorts ownership of innovative assets toward tax-advantaged owners and considers its resulting impacts on innovative activity, recognizing that firms invest in foreign markets for both tax and non-tax (strategic) reasons. We explore how differences in taxation of source-based income—distinguishing IP and non-IP income where applicable—influence cross-border acquisition patterns, both in terms of ex-ante characteristics of targets (e.g. location and applicability of preferential IP-box regimes, industry, patent holdings, etc.), as well as ex-post outcomes (e.g. group and affiliate profitability, rates of return, research and development, new patent applications, etc.) while striving to account for potentially confounding strategic and targeted tax incentives. As such, we provide needed evidence on the impact of international tax policies on foreign acquisition patterns, ex-post outcomes, and overall competitiveness of multinational groups in the market for corporate control.

 [Bradley-International Tax Policy, Acquisition of Innovative Assets, and Innovative Activity-328.pdf](#)

5:00pm - 7:00pm
Room 5039

Pension Reforms

A

Optimal Pensions in Aging Economies

Burkhard Heer

University of Augsburg, Germany

Imrohroglu, Imrohroglu and Joines [1995, A life-cycle analysis of Social Security, Economic Theory, vol. 6, 83-114] show that the optimal replacement ratio of the pay-as-you-go public pension system in the US economy amounts to 30%. We extend their analysis to a model that 1) replicates the empirical wage heterogeneity, 2) endogenizes the individual's labor supply decision and 3) accounts for contributions-defined pensions of the US social security system. With these more realistic modifications, the optimal replacement ratio is found to amount to approximately 5% and to be insensitive with regard to the aging of the US population; however, lower productivity growth would result in higher optimal pension payments. In addition, the optimal pension scheme is found to be more progressive than the present US pension system.

 [Heer-Optimal Pensions in Aging Economies-123.pdf](#)

Pension wealth gaps in a system with disintegrated retirement arrangements

Roman Raab

Keele University, United Kingdom

This paper examines the application of the gap concept to determine pension wealth differentials across different retirement arrangements and over a range of retirement ages. The gap concept allows for comparisons of equality outcomes without having to rely on the optimal savings paradigm. The micro simulation analysis draws a clear picture of inequalities generated by a pension system as opposed to other sources of inequality within the generation in retirement.

 [Raab-Pension wealth gaps in a system with disintegrated retirement arrangements-283.pdf](#)

The labor market effect of demographic change: Alleviation for financing social security

Max Friese

University of Rostock, Germany

The paper shows the effect of demographic change on per capita burden of financing a PAYG social security system in the standard OLG model with frictional labor markets. Rising longevity and decreasing fertility both induce a rise in the employment level via increased capital accumulation and job openings. Simulations of the theoretical model show that this labor market effect indirectly crowds out part of the initial demographic shock's direct impact on per capita financing burden. This holds true for the generation at the period of impact as well as for the following generations.

 [Friese-The labor market effect of demographic change-307.pdf](#)

Towards an International Tax Order for the Taxation of Retirement Income

Bernd Genser

University of Konstanz, Germany

In the last decades all over the world pension policy reforms have tried to account for the changing demographic and socio-economic framework. We focus on old-age pension taxation and address policy conflicts which come along with international migration of citizens as employees and pensioners. The widely implemented system of deferred income taxation of pensions benefits generates problems of international tax equity when workers who were exempted from income tax on their old-age pension saving emigrate and receive pension benefits in another country. We argue that it is unlikely to solve these problems in double taxation treaties and propose to amend deferred income taxation with the equivalent system of pre-taxed pension benefits. This amendment seems politically viable, since it keeps two attractive features of deferred income taxation, viz. intertemporal neutrality and preferential taxation in comparison to traditional comprehensive income taxation, but also avoids income tax revenue losses, which are perceived as unfair when pensioners emigrate.

 [Genser-Towards an International Tax Order for the Taxation-237.pdf](#)

5:00pm - 7:00pm
Room 5033

Political Economics I

A

Military careers of politicians matter for national security policy

David Stadelmann^{1,2}, Marco Portmann^{2,3}, Reiner Eichenberger^{2,3}

¹University of Bayreuth, Germany; ²University of Fribourg, Switzerland; ³CREMA – Center for Research in Economics, Management and the Arts, Switzerland

Do politicians with a military background decide differently on military affairs? We investigate the informative institutional setting of the Swiss conscription army. Politicians who served in the military have a higher probability of accepting pro-military legislative proposals, even when controlling for party affiliations and revealed preferences of constituents that politicians are supposed to represent. While conscription requires all able-bodied man to serve at least as soldiers, we can exploit variation in exposure to enforced and voluntary service. This allows us to provide indicative evidence that motivation for the military, instead of compulsory service, plays a substantial role for explaining legislative decisions on military affairs.

 [Stadelmann-Military careers of politicians matter for national security policy-297.pdf](#)

Career Politicians And Real-World Professionals: The Effects of Political Leadership

Linuz Aggeborn

Uppsala University, Sweden

I empirically investigate the effect of electing a candidate to the U.S. House of Representatives with prior experience from elected office and the effect of electing someone that has previously worked in policy-close workplaces on outcomes the voters in a federal system with single-member election districts should agree upon. I contrast these findings by also estimating the political party effect. Preliminary results suggest that the probability that a congressional district is represented on a powerful committee increases substantially if the elected representative has earlier political experience. I also find that congressmen with prior political experience bring home less directed federal spending. There are some evidences that the frequency a representative stands witness before a congressional committee increases if a district elects a Democrat; other than that, I find no political party effects. I do not find any effects on personal income per capita or unemployment rate.

 [Aggeborn-Career Politicians And Real-World Professionals-220.pdf](#)

Partys Discipline and Political Dynasties: Revisiting the Role of Term Limits in Electoral Systems

Lorenzo Boetti¹, Umberto Galmarini², Massimiliano Piacenza³, Gilberto Turati³

¹Hermes, Torino, Italy; ²Università dell'Insubria, Italy, and IEB-Barcelona; ³Università di Torino

We discuss the role of term limits in electoral systems by observing that elected officials may form a "political chain" by which the position subject to the term limit provision is handed over to a peer member of the same party. The theoretical model allows for political chains and for the transmission of political expertise among parties' members. Using a panel of 1,203 Italian municipalities, from 1998 to 2006, we find a significant "expertise" effect, by which first-term mayors, who already served as officials in the previous term, behave more efficiently than first-term mayors without any previous experience. We find no evidence of peculiar spending patterns by politicians at their last term of office.

 [Boetti-Partys Discipline and Political Dynasties-222.pdf](#)

On the Process of Scientific Policy Advice – With Special Reference to Economic Policy

Gebhard Kirchgässner

University of St. Gallen, Switzerland

We first show three major disagreements among today's leading economists. Using a prominent example, the possible deterrent effect of death penalty, we demonstrate how political convictions can have an impact on the results of empirical research even if the most advanced statistical methods are applied. Then we deal with three different approaches to analyse the process of political advice: the traditional approach, the Public Choice approach and the Political Economy of Scientific Advice. Contrary to the two others, the latter consistently applies the economic model of behaviour to all agents of this game: economic agents, politicians, but also scientists as political advisors. We then deal with the process of policy advice; the main scope is to show how this process has to be organised in order to allow for at least some objectivity, even if advisors are politically biased.

 [Kirchgässner-On the Process of Scientific Policy Advice – With Special Reference-177.pdf](#)

5:00pm - 7:00pm
Boardroom 2026

Public Expenditures and Public Goods

A

When Trade Leads to Incent Public Good Provision: a Tax competition model

Emmanuelle Taugourdeau, Abderrahmane Ziad

France, France

This paper analyses the tax competition mechanisms in a context of commodity trade. We show that the trade market equilibrium may restore the efficiency of the public good provision when agents from different countries have symmetric preferences. Asymmetry in preferences implies over or underprovision in public goods depending on the degree of asymmetry between countries. In both cases, the price adjustment leaves the capital stock unchanged so that the stock of capital is not affected by the taxes. Finally, we show that the centralized choice does not systematically restore the efficiency of the public good provision.

 [Taugourdeau-When Trade Leads to Incent Public Good Provision-176.pdf](#)

Public production of productive government service and resource allocation in an endogenous growth model

Noritaka Maebayashi

The University of Kitakyushu, Japan

We introduce public production of nonrival and nonexcludable productive government service in an endogenous growth model. Production factors of the government service are public employment and government purchase of private goods and they are financed by proportional income taxes. The objective of this paper is to consider resource allocation both within the public sector and between the private and public sectors. We obtain the following results. First, both the growth-and welfare maximizing policies exist. Second, the welfare maximization in the market economy

induces public employment and the ratio of public service to private goods to be excessively large compared with the socially optimal levels. Over-government usage of resources and under-accumulation of private capital in the long run realize in the market economy.

[Maebayashi-Public production of productive government service and resource allocation-190.pdf](#)

Social security transfers and the marginal cost of public funds

Geir H. M. Bjertnaes

Statistics Norway, Norway

Recent literature on the marginal cost of public funds that consider the distributional impact of taxation show that MCF should be set around one. The argument is that the welfare gain connected to improved redistribution counter the efficiency cost of taxation. This literature assumes that income is redistributed by uniform transfers to all individuals. Social transfer schemes are however mean-tested in most countries. This study shows that MCF is larger than one when taxes distort the labor/leisure choice, and means-tested social transfers do not distort entry into the labor market. MCF becomes lower than one when distortions of entry are severe.

[Bjertnaes-Social security transfers and the marginal cost of public funds-498.pdf](#)

The efficiency of monopolistic provision of public goods through simultaneous bilateral bargaining

Ryusuke Shinohara¹, Noriaki Matsushima²

¹Hosei University, Japan; ²Osaka University, Japan

We examine whether the simultaneous bilateral bargaining between the supplier and beneficiaries of a pure public good achieves the Pareto efficient provision of public good. The key factors of our analysis are "bargaining power of the supplier" and "externalities" between the bilateral bargaining sessions. We show that under some mild conditions, the supplier produces the public good at the Pareto efficient level if and only if his/her bargaining power is sufficiently low. Under some reasonable parametric functions, we also show that the likelihood of the efficient provision of the public good in equilibrium diminishes if the number of consumers increases. We demonstrate by a numerical example that the source of the inefficient provision of the public good when the supplier's bargaining power is sufficiently high may be the over-supply of the public good.

[Shinohara-The efficiency of monopolistic provision of public goods through simultaneous bilateral.pdf](#)

5:00pm - 7:00pm
Ui Chadhain Theatre

Taxation, Location and Agglomeration

A

Is Highway Access Good for your Tax Base?

Raphael Parchet¹, Stephan Fretz²

¹University of Lugano, Switzerland; ²University of St. Gallen, Switzerland

This paper examines the impact of highways on local tax bases and tax rates based on a novel dataset on all highway access points in Switzerland. We exploit the fact that the Swiss highway network was defined in 1960 by the federal parliament, but only gradually built over the decades that followed. We argue that from the viewpoint of a municipality, the opening year of a particular highway section can be regarded as largely random and exogenous to local development. The results suggest that the advent of a new highway led to an increase of both the population and average income per capita in municipalities within 10 km reach of the next highway access point by 4 percent on average, whereas it had no impact on municipalities 10-15 km away.

[Parchet-Is Highway Access Good for your Tax Base-113.pdf](#)

The Elasticity of Local Taxable Income: Empirical Evidence from Switzerland

Marius Brühlhart¹, Marcus Roller², Kurt Schmidheiny²

¹Université de Lausanne, Switzerland; ²Universität Basel, Switzerland

We estimate the elasticity of taxable income with respect to local personal income taxes using both spatial and time variation in tax rates within a country. We draw on the unique sub-federal heterogeneity observed within Switzerland, where even individual municipalities autonomously set their personal income tax rate. We study the response of the local income tax base across 379 municipalities of the canton of Bern from 2001 to 2011. Detailed data of the universe of taxpayers allows us to decompose observed behavioural responses by income group, household type, as well as into the intensive margin from changes in e.g. labor market supply and the extensive margin from migration. We find an elasticity of taxable income per resident of around 0.35.

[Brühlhart-The Elasticity of Local Taxable Income-345.pdf](#)

Catastrophic Agglomeration: Indirect Evidence from the Tax Sensitivity of Firm Births

Mario Jametti¹, Marius Brühlhart², Edoardo Slerca¹

¹Università della Svizzera italiana, Switzerland; ²University of Lausanne, Switzerland

A distinctive feature of recent economic geography models is their prediction of "catastrophic" agglomeration, whereby strong clustering forces can be triggered by small changes in some underlying parameters at critical thresholds. We search for evidence for the implied discontinuities in data relating the clustering intensity of industries to those industries' sensitivity to differential tax burdens across locations. Using data on firm births in Switzerland we find that the tax sensitivity of firms' location choices falls off sharply around a certain threshold of agglomeration intensity. This result is consistent with the jump discontinuity implied by the theory.

[Jametti-Catastrophic Agglomeration-424.pdf](#)

Local Tax Rates, Taxable Incomes and Housing Prices: A Spatial VAR Analysis for Switzerland

Marius Brühlhart, Marcel Probst

University of Lausanne, Switzerland

We explore the relationship between local income tax rates and taxable incomes in a panel of 2,500 Swiss municipalities spanning the period 1972 to 2010. Given the endogeneity of both variables, we estimate their relationship through a spatial panel VAR model. We find a long-run average impact of a unit shock to the tax rate of -0.07. A considerably stronger effect is found for taxable incomes in the top-10% bracket (-0.17) and in the top-1% bracket (-0.34). We also find evidence of greater tax-base responsiveness in small jurisdictions. When we in addition take account of changes in municipal housing prices, the estimated effects of tax rates on tax bases are not significantly changed.

[Brühlhart-Local Tax Rates, Taxable Incomes and Housing Prices-442.pdf](#)

5:00pm - 7:00pm
Room 5025

The Effects of Fiscal Consolidation on Economic Activity

A

MONETARY DEVELOPMENTS AND EXPANSIONARY FISCAL CONSOLIDATIONS: EVIDENCE FROM THE EMU

António Afonso

ISEG-University of Lisbon, Portugal

This paper provides new insights about the existence of expansionary fiscal consolidations in the Economic and Monetary Union, using annual panel data for 14 European Union countries over the period 1970-2012. Different measures for assessing fiscal consolidations based on the changes in the cyclically adjusted primary balance were calculated. A similar ad-hoc approach was used to compute monetary episodes. Panel Fixed Effects estimations for private consumption show that, in some cases, when fiscal consolidations are coupled with monetary expansions, the traditional Keynesian signals are reversed for general government final consumption expenditure, social transfers and taxes. Keynesian effects prevail when fiscal consolidations are not matched by a monetary easing. Panel probit estimations suggest that longer and expenditure based consolidations contribute positively for its success, while the opposite holds for the tax based ones.

[Afonso-MONETARY DEVELOPMENTS AND EXPANSIONARY FISCAL CONSOLIDATIONS-106.pdf](#)

Expansionary Austerity and Reverse Causality**Christian Breuer**

ifo, Germany

A large body of research on the effects of fiscal adjustments suggests that reductions in government spending (in terms of decreasing cyclically-adjusted expenditure-GDP-ratios) increase GDP growth (expansionary austerity). I show that this result is affected by reverse causality, i.e. increasing GDP decreases expenditure-GDP-ratios, if the method applied fails to account for cyclical effects in expenditure-GDP-ratios.

 [Breuer-Expansionary Austerity and Reverse Causality-400.pdf](#)

Is Alesina's Argument on the Tax-Spending Mix in Fiscal Consolidation Applicable to Japan?**Shigeki Kunieda**

Hitotsubashi University, Japan

This paper examines whether Alesina's argument on the best mix of tax increases and spending cuts in fiscal consolidation is applicable to Japan. Spending cut based fiscal consolidation is superior if (1) public sector wage cuts lowers a private sector wage, (2) increase of income tax and social contribution raises labor costs, and (3) governments can gain more public confidence in their fiscal consolidation by cutting public sector wages and transfer payment. However, their argument is not applicable to Japan as follows: 1) public sector wages follows private sector wages under the recommendation by National Personnel Authority. We confirm it by Granger causality between public and private sector wages. (2) The comprehensive reform of social security and tax systems is intended to curb an increase in social insurance premiums. (3) In Japan, political opposition to a consumption tax increase is stronger.

 [Kunieda-Is Alesina's Argument on the Tax-Spending Mix in Fiscal Consolidation Applicable-446.pdf](#)

Institutions and public investment as a fiscal stimulus**Atsuyoshi Morozumi¹, Francisco Veiga²**¹University of Nottingham, United Kingdom; ²Universidade do Minho

This paper examines the role of institutions in the effects of public investment as a fiscal stimulus. First, we provide empirical evidence suggesting that when institutions provide greater room for government officials to expropriate private rents from the general public, the output effects of public investment are significantly lower, particularly in the medium run (about a 5-6 years horizon). Second, to interpret and better explain this finding, we build a dynamic general equilibrium model, where private firms use both private and public capital as inputs. We show that when property rights of private investors are not well protected, the medium-run effect of public investment on output is lower. This happens because, despite that public capital accumulation helps firms improve their productivity, private investors' anticipation that their future profits will be expropriated by the government discourages their investment, hindering private capital accumulation and, thus, output growth in the medium run.

 [Morozumi-Institutions and public investment as a fiscal stimulus-553.pdf](#)

Date: Friday, 21/Aug/2015**9:00am - 11:00am****Boardroom 2026****Childcare****B****Investing in the youngest: the optimal childcare policy****Francesca Carta**

Bank of Italy, Italy

In this paper we design the optimal tax system - that combines income taxes and childcare subsidies - in an economy in which the provision of childcare positively affects human capital accumulation. Childcare can be produced at home, with parents' time, or can be bought on the market. Parents provide childcare for joy of giving but they do not know the actual human capital production function. The optimal tax scheme will depend crucially on whether the Government can observe home produced care or not. When this is observable, standard results from the optimal taxation literature hold: the market care subsidy corrects for the intergenerational externality in human capital, whereas redistribution is performed through

income taxation. When home-produced care is unobservable, the market care and the income tax functions are both used to internalize the human capital externality and achieve redistribution. The sign of tax functions strongly depend on Government's degree of paternalism.

 [Carta-Investing in the youngest-188.pdf](#)

The quality of child care: A signaling game with incomplete information**Robert Fenge^{1,3}, Matthias Wrede^{2,3}**¹University of Rostock, Germany; ²University of Nürnberg-Erlangen; ³CESifo Munich

This paper analyzes the effects of asymmetric information between parents and child care centers about the quality of child care. In a dynamic game of incomplete information the child care center sends a signal about its child care quality. The parents cannot observe the true quality. By updating the information the parents decide whether they enforce high quality. We consider policy measures to increase the ex-post probability of high quality. Some measures turn out to have negative effects on ex-post quality. Furthermore, we determine the welfare in the perfect Bayesian equilibria and the welfare-maximizing effort to increase the probability of high quality.

 [Fenge-The quality of child care-268.pdf](#)

Child care subsidies and child care quality**Egbert Lothar Wolfgang Jongen¹, Emre Akgunduz Akgunduz², Janneke Plantenga Plantenga², Paul Leseman Leseman²**¹CPB; ²Utrecht University

In this article we present quasi-experimental evidence on the relation between child care subsidies and child care quality. We exploit the difference in funding of private and public centers in the Netherlands. A recent subsidy cut reduced funding for private centers while funding for public centers was unaffected. The quality measurements are from a panel survey in which centers' quality was evaluated through classroom assessments by trained observers. Using differences-in-differences we find that the subsidy reduction caused a statistically significant decrease in quality of one fifth of a standard deviation. We also present results for nonlinear differences-in-differences estimators. The decline in quality is robust across specifications and appears to be driven by a decline in the middle of the distribution.

 [Jongen-Child care subsidies and child care quality-530.pdf](#)

Which Should the Government Subsidize: Child Care or Elderly Care?**Masaya Yasuoka¹, Atsushi Miyake²**¹Kwansei Gakuin University, Japan; ²Kobe Gakuin University

This paper presents an examination of how a government should provide social security benefits. A subsidy for elderly care services can increase the purchase of elderly care services. Therefore, it can reduce the need for elderly care provided by adult children. This decrease implies an increase in the labor supply. The consequent increase in the labor supply raises the household income, making increased fertility affordable: social security benefits for older people have the effect of preventing a decrease in the number of children. However, this paper presents derivation of the result that the subsidy for child care service cannot always increase the fertility and labor supply even if the household can use the child care service at a low cost by virtue of the subsidy policy.

 [Yasuoka-Which Should the Government Subsidize-366.pdf](#)

9:00am - 11:00am**Corporate Taxation and Rate-of-Return Allowances**

Room 5039

B

Capital Taxation and Imperfect Competition: ACE vs. CBIT**Kurt R. Brekke¹, Armando J. Garcia Pires², Dirk Schindler¹, Guttorm Schjelderup¹**¹Norwegian School of Economics, Norway; ²Samfunns- og næringslivsforskning, Norway

This paper studies the market and welfare effects of two main tax reforms -- the Comprehensive Business Income Tax (CBIT) and the Allowance for Corporate Equity tax (ACE). Using an imperfect-competition model for a small open economy, it is shown that the well-known neutrality property of ACE does not hold. Both corporate tax regimes distort market entry and equilibrium prices. A main result is that a small open economy should levy a positive source tax on capital in markets with free firm entry. Which tax system is better from a welfare point of view, depends on production technology, the competitive effects of ACE and CBIT, and whether entry is excessive or suboptimal at the given corporate tax rate. Imposing tax revenue neutrality yields a higher corporate tax rate with ACE, which increases the scope for CBIT to be welfare improving.

 Brekke-Capital Taxation and Imperfect Competition-205.pdf

Cash-Flow Business Taxation Revisited:**Motohiro Sato¹, Robin Boadway², Jean-Francois Tremblay³**¹Hitotsubashi University Japan, Japan; ²Queen's university, Canada; ³University of Ottawa, Canada

It is well-known that cash-flow business taxation with full loss offset, and present-value equivalent forms like the ACE, are neutral with respect to firms' investment decisions when firms are risk-neutral. We study the effects of cash-flow business taxation when firms are risk averse and when financial intermediaries face asymmetric information problems in financing heterogeneous firms. The entry decision and the financing decisions of firms are distorted. We characterize the nature of such distortions and consider how cash-flow taxes would have to be amended to achieve neutrality.

 Sato-Cash-Flow Business Taxation Revisited-224.pdf

Rate-of-return allowance in a growth model of the firm: Further justification for carry-forward rules**Seppo Kari¹, Jussi Laitila²**¹VATT, Finland; ²Department of Biosciences, University of Helsinki

This paper analyzes the efficiency aspects of the Rate-of-return allowance (RRA) implemented in Norway to taxation of dividends and capital gains in 2006 and proposed later in the Mirrlees Review (2011). We construct a growth model of a financially constrained firm and show that without carry forward of unused exemptions (CF) the non-linear tax schedule of the RRA model produces an incentive to start dividend distributions early over the firm's growth path compared to proportional tax. This incentive (EDI) may reduce investment and slow down growth of a financially constrained firm. We show then that after introducing a properly designed CF the EDI disappears entirely. We contribute to the literature by showing that one of the benefits of CF is to avoid the investment distortions, produced by EDI.

 Kari-Rate-of-return allowance in a growth model of the firm-311.pdf

Corporate Taxation and Investment – Evidence from the Belgian ACE Reform**Nils aus dem Moore**

Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Germany

We exploit the ACE corporate tax reform in Belgium that came into effect in January 2006 to evaluate the relationship between corporate taxes and investment on the basis of firm-level accounting data. To identify the causal effect of the reform on capital spending of Belgian corporations, we focus on the indirect effect of taxes on investment via their impact on free cash-flow. We use the systematic variation of the cash-flow sensitivity of investment between small and medium versus large firms to form treatment and control groups for difference-in-differences (DID) estimations.

Our benchmark results provide highly significant and robust estimates that correspond to an increase in investment activity by small and medium-sized firms of about 3 percent in response to the ACE reform. We substantiate the robustness of our results by means of triple differences estimations (DDD) that use a matched sample of French companies as an additional dimension of contrast.

 aus dem Moore-Corporate Taxation and Investment – Evidence from the Belgian ACE Reform-207.pdf

9:00am - 11:00am

Room 4050B

Environmental Policy – Theoretical Contributions

B

Cross-border Pollution, Capital Mobility and Efficient Decentralized Environmental Policies**Nikos Tsakiris¹, Panos Hatzipanayotou², Michael Michael³**¹University of Ioannina, Greece; ²Athens University of Economics and Business, Greece; ³University of Cyprus, Cyprus

We construct a general equilibrium model of two regions with cross-border pollution and capital mobility. Within this framework, we examine the efficiency of decentralized (non-cooperative) policymaking when regions are small or large in capital markets. It is shown that when regions are small, the decentralized policymaking yields a Pareto efficient outcome, regardless of the environmental policy instruments that regions choose to control pollution. When regions are large, efficiency critically depends on the applied instrument of environmental policy.

 Tsakiris-Cross-border Pollution, Capital Mobility and Efficient Decentralized Environmental Policies-437.pdf

Environmental Tax Reform and Heterogenous Labor Markets: Can the Trade-Off between Environmental Quality, Efficiency and Income Distribution be Avoided?**Diane Aubert, Mireille Chiroleu-Assouline**

Paris School of Economics, France

This paper investigates the distributional and efficiency consequences of an environmental tax reform, when the revenue of the green tax is recycled by a variation of labor tax rates. We build a general equilibrium model with heterogeneous imperfect labor markets, pollution consumption externalities, and where poor households spend relatively more on polluting goods than rich households (Stone-Geary preferences). We characterize the necessary conditions for the obtainment of the environmental and welfare dividends and we analyze the distributional properties of the green tax. We show that even in the case where the reform appears to be regressive, the gains from the double dividend can be made Pareto improving by using a redistributive non-linear income tax if redistribution is initially not too large. Moreover, the use of a non-linear income tax acts on unemployment and can moderate the trade-off between equity and efficiency.

 Aubert-Environmental Tax Reform and Heterogenous Labor Markets-518.pdf

Optimal Dynamic Carbon Taxation under Firm Relocation**Daniel Nachtigall**

Freie Universität Berlin, Germany

In a dynamic setting, I analyze optimal carbon taxes when a country unilaterally implements climate policies. Carbon taxes induce firms to invest in abatement capital, but may also lead to relocation of some firms. The social planner addresses the relocation problem by offering firms transfers conditional on maintaining the production in the home country. I show that if transfer payments are only feasible in the near future (period 1), but not in the far future (period 2), it is optimal to implement a declining carbon price path with the first period carbon price exceeding the marginal environmental damage. The reason is that a high carbon price triggers more investments in abatement capital and, thus, creates a lock-in effect. Given that firms have invested much in abatement capital, they are less affected by carbon prices in the future and therefore less prone to relocate in the second period.

 Nachtigall-Optimal Dynamic Carbon Taxation under Firm Relocation-257.pdf

9:00am - 11:00am
Room 4047

Fiscal Decentralisation and Economic Activity B

Fiscal Decentralization, Equalization, and Intra-Provincial Inequality in China

Yongzheng Liu¹, Jorge Martinez-Vazquez², Alfred Wu³

¹Renmin University of China; ²Georgia State University; ³The Hong Kong Institute of Education

Using a nationwide county-level panel dataset for the years 1995-2009, this paper conducts the first analysis in the literature to examine the impacts of fiscal decentralization and fiscal equalization, both measured at the sub-provincial level, on intra-provincial inequality in China. While fiscal decentralization offers significant advantages regarding public expenditure efficiency, a potentially large disadvantage is that it may lead to increased regional inequality. In this paper, in line with our theoretical hypotheses, we find that while fiscal decentralization at the sub-provincial level in China leads to larger intra-provincial inequality, fiscal equalization efforts performed by provincial governments tend to mitigate the detrimental effect of fiscal decentralization on intra-provincial inequality. Our results also indicate that the quantitative effects of fiscal decentralization on regional inequality tend to be larger when they are measured from the expenditure side.

 [Liu-Fiscal Decentralization, Equalization, and Intra-Provincial Inequality-149.pdf](#)

Evidence of the Effect of Local Government Size on Happiness in Japan

Yoshio Itaba

Doshisha University, Japan

This paper analyzed empirically whether prefectural governmental expenditures are conducive or detrimental to happiness of citizens in Japan. We controlled for many variables such as age, income, marital status, social capital, traits(health, sleeping hours, human nature, religious involvement, alcohol), education level and Big Five.

We concluded that there is a statistically positive relationship between the ratio of total expenditure to prefectural income and happiness for men and a statistically negative relationship between the two for women, although no significant coefficient relationship between the two for the whole sample. This paper has provided new empirical evidence of gender valuation differences in the relationship between the government size and happiness at the local government level in Japan.

 [Itaba-Evidence of the Effect of Local Government Size on Happiness-512.pdf](#)

Strength in Diversity? Fiscal Federalism among the Fifty U.S. States

Teresa Garcia-Mila^{1,2}, Therese J. McGuire³, Wallace E. Oates⁴

¹Universitat Pompeu Fabra, Spain; ²Barcelona GSE, Spain; ³Northwestern University, USA; ⁴University of Maryland, USA

We document the distinctive structure of fiscal federalism in the United States, which is characterized by greater decentralization and larger diversity across subnational units of government in important fiscal outcomes and fiscal structures when compared with other countries. We document striking differences in the reliance by state and local governments on different tax sources, while the diversity is less intense in expenditures. An examination of the K-12 education systems across the states further supports the notion that in fact the U.S. consists of fifty different fiscal and governmental systems, corresponding to the fifty states and their local governments. An analysis of the dynamics of diversity over the period 1977-2011 leads us to conclude that diversity has been stable over time and suggests that the system is likely to prevail.

 [Garcia-Mila-Strength in Diversity Fiscal Federalism among the Fifty US States-117.pdf](#)

State and Local Sales Taxes and Business Activity in the United States

Nicholas Saxon¹, Mehmet Serkan Tosun², Jingjing Yang³

¹U.S. Census Bureau; ²University of Nevada, Reno, United States of America; ³University of Nevada, Reno, United States of America

In this paper, we are examining the relationship between sales taxation and business activity by utilizing county-level business data and sales tax rates for the period 2002- 2011. We find that there is indeed a significant negative impact on business payroll, regardless of industry, an almost similar impact on employment, and mixed and somewhat inconsistent results for establishments, indicating that establishments may not be responding significantly to short-run sales tax rate changes. Further, we confirm at this level of data the portion of literature indicating that manufacturing is strongly and negatively impacted by sales taxes. An interesting result between annual payroll and employment is that annual payroll is much more negatively impacted by a sales tax rate increase, suggesting that businesses in general in a county tend to respond to a sales tax rate increase first, or more harshly, by reducing payroll more than they do by reducing employment.

 [Saxon-State and Local Sales Taxes and Business Activity-362.pdf](#)

9:00am - 11:00am
Room 4050A

Fiscal Transfers and Fiscal Sustainability B

Fiscal Consolidation and Expenditure Arrears: Evidence from Local Governments' Investments

Luigi Moretti, Paolo Chiades, Luciano Greco, Vanni Mengotto, Paola Valbonesi

University of Padova, Italy

In this paper, we investigate how tightening fiscal constraints (e.g., through intergovernmental transfer cuts) can lead local governments to postpone investment payments. We first provide a simple model showing how local governments can use arrears to relax their short-run financial constraints. We then empirically assess our theoretical prediction using information from accounting and financial reports from all Italian municipalities for the period 2003-2010. Exploiting the long-lasting effect of the 1977-1978 structural reform of Italian local public finance, we employ an instrumental variable approach to face endogeneity concerns. We find robust empirical evidence that the tighter the local government's fiscal and financial conditions, the larger the arrears in public investment expenditures.

 [Moretti-Fiscal Consolidation and Expenditure Arrears-431.pdf](#)

PANEL COINTEGRATION TESTS ON THE FISCAL SUSTAINABILITY OF GERMAN LAENDER

Ekkehard A Koehler, Lars P Feld

Walter Eucken Institute, Germany

This paper provides new evidence on the sustainability of public finances in German states (Laender) by exploiting a newly compiled database covering the years 1950-2011. Unlike previous studies on Germany, we analyze fiscal sustainability by applying "second generation" panel cointegration techniques. A unique identification strategy for the selection of sub-panels improves the robustness of panel cointegration tests and reveals that Laender finances are hardly sustainable.

 [Koehler-PANEL COINTEGRATION TESTS ON THE FISCAL SUSTAINABILITY-504.pdf](#)

Tax transfer payments after natural disaster: A diff-in-diff analysis of the 2002 Elbe flood and its impact on municipal finances in Saxony

Verena Grass^{1,2}

¹DIW Deutsches Institut für Wirtschaftsforschung Berlin; ²Freie Universität Berlin

This paper explores the financial effectiveness of tax transfer payments after an unforeseeable natural destruction on the regions budget. The example is chosen from the 2002 flood in Saxony and damages in the municipalities. It was debated whether the flood relief fund was sufficient or even over compensating. We analyze what has changed in the debt level of the municipalities and calculate the effect of the relief fund and its financial aid. To address this question an extensive panel dataset over the years 1998 to 2009 with detailed figures about tax transfers is investigated. Using a difference in difference approach to structure the risk of indebtedness, we find that the common trend does not continue after the flood. Finding suggests the relief fund was also used to decrease the debt in the region. The results are robust to various tests with subgroups of the sample and propensity score matching.

 [Grass-Tax transfer payments after natural disaster-505.pdf](#)

'Hold that ghost': Local government cheating on transfers

Dirk Foremny, Albert Solé, Jordi Jofre-Monseny

I.E.B. / University of Barcelona, Spain

We study the incentives of local governments to misreport the information needed to implement a formula transfer. We focus on population, in theory the easiest variable to verify by the grantor. We analyze the Spanish case, and show how a switch from the use of Census to Registered

population (which is administered by the municipalities) led to a manipulation of population numbers. As a result, the Register included a proportion of "ghost citizens", that is people with no trace of residing in the municipality. We identify the effects of transfers on population over-reporting taking profit of notches in the transfer scheme, which is based on weighted population with weights increasing at specific population thresholds.

 [Foremny-Hold that ghost-174.pdf](#)

9:00am - 11:00am
Room 5052

Health II

B

Effects of upfront payment on utilization and health: Evidence from a nationwide physician strike in Japan

Reo Takaku¹, Shun-ichiro Bessho²

¹Institute for Health Economics and Policy; ²Keio University, Japan

The Japan Medical Association (JMA), a lobby of physicians, went on strike in July 1971 against the medical reforms led by the government. While physicians of the JMA resigned as health insurance doctors, they continued to provide medical care and even health insurance treatment in some areas. This paper uses the regional differences in resignation as a natural experiment to examine the effect of the payment method of health insurance on medical service utilization and health status. Our results suggest that the resignation substantially decreased medical service utilization, but it did not affect mortality among newborns and all ages.

 [Takaku-Effects of upfront payment on utilization and health-192.pdf](#)

Impact of the Great Recession on Health Care Utilization and Expenditure in Korea

Eunhyeong Lee

Korea Institute of Public Finance, Korea, Republic of (South Korea)

This paper examines how the Great Recession in the late 2000s affects health care utilization and out-of-pocket expenditure among Koreans. We use the National Patient Sample (NPS) of 2006–2010, collected by the National Health Insurance Corporation. Since the NPS is panel data, we use fixed-effects models and two-part models for health care expenditure, and poisson models for health care utilization (e.g. number of doctor visits). We find that the recession decreased health care utilization and out-of-pocket costs in overall, more so among low-income individuals. Especially, inpatient care, outpatient care, and drug expenditures are significantly lower after the recession. Moreover, those with minor illnesses are more likely to reduce health care use and costs compared to those with serious diseases. Also, the economic downturn increased unmet care needs.

 [Lee-Impact of the Great Recession on Health Care Utilization and Expenditure-227.pdf](#)

Empirical evidence on sanitation and health in Brazilian municipalities

Enlilson Mattos¹, Lucas Teixeira², Cristine Pinto³

¹Fundação Getulio Vargas, Brazil; ²Fundação Getulio Vargas, Brazil; ³Fundação Getulio Vargas, Brazil

This paper investigates the effects of sanitation policies on health indicators in a panel of Brazilian municipalities from 2001 to 2008. Our results indicate that for the entire sample, a 1% reduction in the incidence of total coliform implies a decline of 0.12 deaths for children under one year of age, including the neonatal period, for every thousand live births. Regarding hospitalization due to illness, only improvement in access to water and a reduction in total coliforms seem to reduce hospitalization for dysentery (for access to water) and hepatitis and tuberculosis (for total coliforms). Access to sewage services seems to reduce the mortality of children up to four years of age and hospitalizations of children aged five to nine years in poor municipalities. Finally, access to water and sewers appears to reduce hospitalizations due to dysentery and hepatitis in municipalities with an income above the median in Brazil.

 [Mattos-Empirical evidence on sanitation and health in Brazilian municipalities-110.pdf](#)

What Drives Public Healthcare Expenditure?

Carsten Colombier¹, Thomas Brändle²

¹Federal Finance Administration, Switzerland; Institute for Public Economics, University of Cologne, Germany; ²Federal Finance Administration, Switzerland; University of Basle

A better understanding of the determinants of public healthcare expenditure is key to designing effective health policy reforms. We integrate supply and demand side factors, factors from political economy and health policy reforms into an empirical analysis of the highly decentralized Swiss healthcare system. We compile a novel data set of the Swiss cantons spanning the period 1970 – 2012. Using dynamic panel estimation methods, we find that per capita income, the unemployment rate and the share of foreigners are positively related to public healthcare expenditure. With regard to political economy aspects, public healthcare expenditure increases with the presence of women in parliament. However, institutional restrictions for politicians, such as mandatory budget referenda and fiscal rules, do not appear to limit public healthcare expenditure.

 [Colombier-What Drives Public Healthcare Expenditure-155.pdf](#)

9:00am - 11:00am
Ed Burke Theatre

Income Inequality, Taxation and Mobility

B

The Role of Capital Income for Top Income Shares in Germany

Charlotte Bartels¹, Katharina Jenderny²

¹DIW Berlin / SOEP, Germany; ²Freie Universitaet Berlin, Germany

The disappearance of capital income from the income tax base in many countries poses a major challenge to the comparability of top income share series based on income tax statistics both over time and between countries. First, we extend the existing German series including capital gains to 2010. Second, we derive three homogeneous series by simulating legislative definitions of capital income prevailing between 2001 and 2010. We employ a rich data set containing the tax files of all income taxpayers. Third, we construct a composite measure as a proxy for capital income missing in the data since 2009. We find that the drop in top income shares obtained from income tax statistics in the crisis year 2009 is largely attributable to the exclusion of capital income from the income tax base.

 [Bartels-The Role of Capital Income for Top Income Shares in Germany-126.pdf](#)

The Elasticity of Taxable Income at the Very Top

Katharina Jenderny, Clive Werdt

Freie Universitaet Berlin, Germany

We use the recent implementation of a top income surtax in the German personal income tax to estimate taxable income responses at the very top of the income distribution. The surtax affects tax units with taxable income above 250,000€ (singles) or 500,000€ (married couples). The reform affected singles and couples differently, and was postponed for unincorporated business income to 2008, while all other incomes were affected in 2007. We exploit the fact that the marginal tax rate in the highest tax bracket and the surtax are linear (i.e. the net-of-tax rate is exogenous at high income levels). We analyze the reaction of taxable business- and self-employed income and plan to analyze the shifting between income sources in response to this reform.

 Jenderny-The Elasticity of Taxable Income at the Very Top-470.pdf

The sensitivity of the elasticity of taxable income with respect to estimation technique, income controls and sample selection.

Carina Woodage^{1,2}, Philipp Doerrenberg¹, Andreas Peichl^{1,2}, Sebastian Siegloch^{1,2}

¹Centre for European Economic Research Mannheim, Germany; ²University of Mannheim, Germany

We estimate taxable income responses using panel data from German administrative tax records by exploiting several tax reforms between 2001 and 2008. We provide panel regression evidence as well as graphical evidence. Our results are sensitive with regard to the chosen estimation technique, income controls and sample selection. preliminary: We show that depending on the model specification, a large range of estimates are received. We estimate the ETL in a range of 0.2 - 1.0 and elasticity estimates of 0.05 - 0.8 for broad gross income.

 Woodage-The sensitivity of the elasticity of taxable income with respect-228.pdf

The Great Escape: Intergenerational Mobility Since 1940

Nathaniel G. Hilger

Brown University, United States of America

I develop a new method to estimate intergenerational mobility on U.S. census data back to 1940. The method identifies gradients in children's final schooling with respect to parental income and education, overcoming the problem that many children leave home before they finish schooling. I replicate recent findings of stable mobility since 1980 and lower mobility in the South. However, I document a large increase in mobility after 1940, especially for blacks, as well as dramatic, long-term convergence of mobility in the South to non-South levels. Post-war mobility gains were driven by voluntary high school enrollment, not compulsory schooling laws or college enrollment. Historically, mobility has been higher in states with higher incomes, lower inequality, and greater educational inputs, even after controlling for region. Educational gains of poor children relative to rich children plausibly increased aggregate annual earnings growth by 0.125-0.25 percentage points over the 1940-1980 period.

 Hilger-The Great Escape-560.pdf

9:00am - 11:00am

Beckett Theatre 1

Macroeconomic Policy, Output Stabilization and Public Bailouts

B

Opening the Red Budget Box: Nonlinear Effects of a Tax Shock in the UK

Valentina Colombo^{1,2}

¹University of Padova, Italy; ²Central Bank of Ireland

This paper studies the real effects of an exogenous UK tax change in recessions and expansions. The tax shock is identified via the measure recently proposed by Cloyne (2013). Combining local projection techniques (Jordá, 2005) with smooth transition regressions (Granger and Teräsvirta, 1994), tax policy shock is found to affect UK macroeconomic variables depending on the phase of business cycle the economy is when tax shock occurs. A positive tax shock in recessions triggers a large, persistent, negative, and statistically significant reaction in output, consumption, investment, imports and government consumption. The results suggest that output tax multipliers are negative and above one (in absolute value) in recessions but not in expansions. The size and the sign of responses of a number of macroeconomic variables are also found to be state-contingent

 Colombo-Opening the Red Budget Box-484.pdf

"Does fiscal devaluation really work? Evidence from an Italian experiment"

Massimo Bordignon¹, Marie Luise Schmitz², Gilberto Turati³

¹catholic university of milan, Italy; ²catholic university of milan, Italy; ³University of Turin

The empirical assessment of the effectiveness of tax reforms along the lines of fiscal devaluation is a highly relevant issue in the crisis-ridden Euro area. Taxes could be used to mimic an exchange rate adjustment, that is no longer available to countries adopting the same currency. Though the theoretical case for fiscal devaluation is strong, empirical evidence lags behind. A promising approach is to exploit

regionally differentiated tax reforms as quasi-experiments. We use an Italian policy implemented in 2007-10 to cut labour tax and contributions to this effect. Using RDD techniques and propensity matching score we find strong and positive significant employment effects of both conditionally and unconditionally granted deductions. We find however that these effects are sector specific, mostly concentrated in the service sector, contrary to the received view. We also do not find any sign for firms' self-selection into high-deduction areas.

 Bordignon-"Does fiscal devaluation really work Evidence from an Italian experiment"-265.pdf

Public Debt, Bailouts, and Common Bonds

Zarko Kalamov², Klaas Staal¹

¹University of Bonn, Germany; ²Technische Universität Berlin, Germany

We look at a model where countries of different size provide local public goods with positive spillovers. Matching grants can induce socially-efficient expenditure levels, but countries can induce bailouts. We consider the characteristics of these bailouts in a subgame-perfect Nash equilibrium and how these characteristics are affected by the introduction of common bonds.

 Kalamov-Public Debt, Bailouts, and Common Bonds-325.pdf

Interest Rate Spreads and Bailout Clauses for Housing Corporations: the Dutch Experience

Jacob Veenstra, Bernard van Ommeren

University of Groningen, Netherlands, The

The bulk of capital provided to Dutch housing corporations is guaranteed by an explicit bailout clause. We investigate whether this clause succeeds in lowering interest rates. By comparing a set of guaranteed and unguaranteed corporation loans provided by the largest Dutch public sector bank (BNG Bank), we find that the bailout clause has significantly reduced interest rates by 80 to 110 basis points. We also find that the financial position of corporations only influences interest rates for unguaranteed loans. We therefore surmise that BNG Bank didn't monitor corporations individually when providing guaranteed loans, but relied on the bailout clause and supervisory authorities. Moreover, we argue that BNG Bank does not charge a premium to cover potential non-recoverable costs should there be default. We conclude this, because corporations do not pay higher interest rates than municipalities, although non-recoverable costs would be relevant only for corporations since municipalities cannot default by law.

 Veenstra-Interest Rate Spreads and Bailout Clauses for Housing Corporations-434.pdf

9:00am - 11:00am

Ui Chadhain Theatre

Personal Taxation and Labour Supply

B

Adjustment costs and labour supply: evidence from bunching at tax thresholds in the UK

Barra Roantree, Stuart Adam, James Browne, David Phillips

Institute for Fiscal Studies, United Kingdom

Standard economic theory predicts that individuals should bunch at discontinuities and convex kink points in the budget set, such as those created by progressive tax systems. Saez (2010) showed that the extent of this bunching can be used to estimate the elasticity of taxable income, a key parameter determining the responsiveness of individuals to taxes. However, optimising frictions can drive a wedge between estimates of this parameter obtained from observed behavioural responses and the structural parameter relevant for welfare in the longer-run (Chetty, 2012). This paper provides quasi-experimental evidence that for most workers such frictions are substantial, but there is heterogeneity between groups. We find that much of the behavioural response to kinks in the tax system is the

result of directors of closely-held companies changing the timing of dividend payments to minimise their tax liabilities. Our results also suggest that information costs may be an important source of frictions.

[Roantree-Adjustment costs and labour supply-557.pdf](#)

An Earned Income Tax Credit Proposal for Chile

Claudio A. Agostini¹, Marcela Perticara², Javiera Selman³

¹Universidad Adolfo Ibañez, Chile; ²LADES-Universidad Alberto Hurtado; ³University of Chile

The use of conditional cash transfer programs to fight poverty is common in Latin America. Although these programs can be effective in the short term, they can also discourage employment and generate dependence from social welfare. In some developed countries, the tax system has been used to implement social policies. A good example is the Earned Income Tax Credit in the United States, which offers to lower-income individuals a reimbursable credit conditioned on working. This paper estimates the effects of implementing an EITC in Chile. The results show that it would be an effective instrument to significantly increase employment and reduce poverty and inequality. Furthermore, a comparison with the last conditional cash transfer program implemented by the government shows that the EITC is more effective and has a lower cost per family.

[Agostini-An Earned Income Tax Credit Proposal for Chile-105.pdf](#)

Bunching at Kink Points in the Dutch Tax System

Vincent Dekker, Kristina Strohmaier

University of Hohenheim, Germany

This paper presents new empirical evidence on taxpayers' responsiveness to taxation by estimating the compensated elasticity of taxable income with respect to the net-of-tax rate in the Netherlands. Making use of the bunching approach introduced by Saez (2010), we find small, but clear evidence of bunching behaviour at all thresholds of the Dutch tax schedule with a precise estimated elasticity of 0.024 at the upper threshold. In line with the literature, we find much larger estimates for women and self-employed individuals, but we can also identify bunching behaviour

of male and employed individuals. We add to the bunching literature by proposing an intuitive, iterative procedure for determining the bunching window as well as the optimal counterfactual model, where we rely on the information criteria to determine the model.

[Dekker-Bunching at Kink Points in the Dutch Tax System-523.pdf](#)

Estimating the Elasticity of Taxable Income in New Zealand

Norman Gemmell¹, Simon Carey², John Creedy^{1,2}, Josh Teng³

¹Victoria University of Wellington, New Zealand; ²The Treasury, New Zealand; ³Inland Revenue, New Zealand

This paper produces regression estimates of the elasticity of taxable income in New Zealand using two new instruments applied to a substantial tax reform. Using 'standard' instrumental variable methods is found to be unable to accommodate the substantial observed exogenous changes in taxable income. Two new tax rate instruments are proposed that based on on taxable income dynamics for a panel of taxpayers over a period that involves no tax changes. Applying these instruments to the 2001 New Zealand tax changes yields plausible estimates of the elasticity of taxable income, with elasticities substantially higher for taxpayers with non-wage income. Results also confirm that non-wage and salary income was especially responsive to the tax changes.

[Gemmell-Estimating the Elasticity of Taxable Income in New Zealand-150.pdf](#)

9:00am - 11:00am
Room 5025

Tax (under)reporting

B

Complexity, salience and income tax reporting behaviour: Evidence from a natural experiment

Kaisa Kotakorpi¹, Jani-Petri Laamanen²

¹University of Turku, Finland; ²University of Tampere, Finland

Despite the adoption of prefilled income tax returns in many countries, little is known about their effects on taxpayers' reporting behaviour. We estimate the effect of the income tax filing system on taxpayers' reporting behaviour, utilising data from a Finnish policy experiment. We find that receiving a (partially) prefilled income tax return lead to a significant reduction in non-prefilled deductions and self-reported income, and an increase in deductions that were prefilled in the new system. However, we do not find effects on individuals' total taxable income or taxes paid. We discuss complexity and compliance costs, salience effects, and changes in the opportunities for tax evasion as possible explanations for our findings.

[Kotakorpi-Complexity, salience and income tax reporting behaviour-204.pdf](#)

Micro-estimates of income underreporting based on income-consumption gaps: survey vs tax records

Alari Paulus

University of Essex, United Kingdom

A seminal study by Pissarides and Weber (1989) estimates the extent of income underreporting among self-employed on the basis of their food consumption, using employees as a reference group. They assume that expenditure is reported correctly, employees are fully compliant and survey income corresponds to the income reported to the tax authority. In this paper, I explore the validity of the latter two assumptions using data from an income survey linked with individual tax records for Estonia, and extend their approach by allowing for non-compliance also among private sector employees. Results show large underreporting of earnings by self-employed and also substantial underreporting of earnings by private employees on the basis of register income, while a much smaller scale of non-compliance is detected for self-employed and no underreporting for private employees using survey incomes. This suggests that previous studies applying this methodology to survey data have underestimated the extent of non-compliance.

[Paulus-Micro-estimates of income underreporting based on income-consumption gaps-347.pdf](#)

Self-Employment Underreporting in Great Britain: Who and How Much?

Ana Cinta Cabral, Gareth Myles, Christos Kotsogiannis

TARC, University of Exeter, United Kingdom

The present paper estimates the degree of income underreporting by the self-employed in Great Britain using the Pissarides and Weber (1989)

approach. It then extends the model to incorporate the analysis of the determinants of noncompliance based on characteristics found on the tax

returns and also on other socioeconomic factors. The research finds income reported by the self-employed must be multiplied by a factor of 1.28 to obtain their true income, which translates into a lower bound estimate of the black economy of 1.7% of GDP. We find that self-employment underreporting varies by sex, age, type of occupation, region, education and characteristics based on the self-employment activity. These findings can provide guidelines to the tax administration about the profile of individuals that need to be addressed with their compliance activities.

[Cabral-Self-Employment Underreporting in Great Britain-480.pdf](#)

How does corruption affect tax compliance in Sub-Saharan Africa? An empirical analysis.

Bjoern Jahnke

Leibniz University of Hannover, Germany

Developing and emerging economies typically achieve much lower tax/GDP ratios than industrialized countries. Some scholars argue that corruption is one of the major obstacles to achieve higher revenue levels. The phenomenon of corruption in relation to tax revenues so far was mostly considered in relation to macro-economic variables. Recent taxation reforms focused on the increase of the tax base and hence relies on the compliance of small scale tax payers. However, these people also are vulnerable to get extorted

by corrupt public servants in order to get access to public services. Hence they may be reluctant to contribute to the public budget. This study intends to explore how petty corruption

affects tax compliance attitudes. Based on the data from Afrobarometer 5 this paper finds that individual corruption experiences as well as the perception of the government and the tax department in general have a sizable impact on tax compliance attitudes.

[Jahnke-How does corruption affect tax compliance in Sub-Saharan Africa An empirical analysis-391.pdf](#)

9:00am - 11:00am
Swift Theatre

Taxation and the Family

B

Tax Planning and Parental Leave Benefits: Evidence from a German Reform

Katharina Erbe

University of Erlangen-Nuremberg, Germany

The German reform of parental leave benefits in 2007 changed incentives for personal income tax planning of expectant parents. Before the reform, parents who stayed at home for child care received a means-tested payment. After the reform the parental leave payment changed to a net earnings-related transfer. This paper analyzes the response of women's tax payments to this natural experiment. We focus on married mother's tax planning, because they have a very high take-up rate of parental leave benefits and are able to adjust their tax payments by changing their tax schedule. The results suggest that couples with a wife's income above a certain threshold react to the reform. Conducting a difference-in-difference approach, we find a weak significant effect on the wage tax payments that is -460.67 Euros. A more general fixed effects model supports these findings by a highly significant reform effect of -992.03 Euros.

[Erbe-Tax Planning and Parental Leave Benefits-264.pdf](#)

Long term care and capital accumulation: the impact of the State, the market and the family

Emmanuel Thibault¹, Canta Chiara², Pestieau Pierre^{3,1}

¹Toulouse School of Economics, France; ²Norwegian School of Economics, Norway; ³University of Liège, CORE

The rising level of long-term care (LTC) expenditures and their financing sources are likely to impact savings and capital accumulation and henceforth the pattern of growth. This paper studies how the joint interaction of the family, the market and the State influences capital accumulation in a society in which the assistance the children give to dependent parents is triggered by a family norm. We find that, with a family norm in place, the dynamics of capital accumulation differ from the ones of a Standard Diamond (1965) model with dependence. For instance, if the family help is sizeably more productive than the other LTC financing sources, a pay-as-you-go social insurance might be a complement to private insurance and foster capital accumulation.

[Thibault-Long term care and capital accumulation-558.pdf](#)

Why Pay More? Tax Planning of Married Couples

Thiess Buettner¹, Katharina Erbe², Veronika Grimm³

¹Univ Erlangen Nuremberg, Germany; ²Univ Erlangen Nuremberg, Germany; ³Univ Erlangen Nuremberg, Germany

This paper explores whether tax planning by households is consistent with a minimization of the family tax burden or whether and to what extent altruism and concerns about the tax loss of individual household members matter. To this end, we take advantage of a specific feature of the German tax system which allows married couples to decide which of three different payroll tax regimes applies. Using a 10% random sample of the individual income tax files of all German tax payers, we find that a substantial fraction of all couples choose equal treatment of partners although a preferential tax treatment of the high income earner would yield a higher net family income. Our findings indicate that this result can be partly attributed to equity concerns. Tax planning is used not only to lower the overall tax burden but also to reduce the tax burden on the partner with the lower income.

[Buettner-Why Pay More Tax Planning of Married Couples-525.pdf](#)

Grandparental child care, child allowances, and fertility

Kazutoshi Miyazawa

Doshisha University, Japan

Recent research on grandparenting reveals that it has a positive impact not only on parental child care but also on the grandparent's welfare.

In this study, we examine the effect of child allowances on fertility by assuming that fertility is a joint product of both parental and grandparental child care and that providing grandparental child care improves welfare. In doing so, we aim to establish a theoretical framework that more accurately predicts the impacts of child care policies than that which is currently utilized in the literature (empirical evidence for which has been inconclusive at best).

We find that the fertility effect of child allowances critically depends on individual preferences and household production technology. In some cases, the fertility rate is monotonically decreasing or shaped like an inverted U with respect to the size of child allowances.

[Miyazawa-Grandparental child care, child allowances, and fertility-114.pdf](#)

9:00am - 11:00am
Beckett Theatre 2

The Impact of Tax Treaties

B

Territorial Tax Reforms, Tax Sparing Agreements, and Foreign Direct Investment

Celine Azemar¹, Dharmika Dharmapala²

¹University of Glasgow, United Kingdom; ²University of Chicago, Law School

Tax sparing agreements are included in some bilateral tax treaties to promote economic development; they prevent fiscal incentives offered by developing host countries for inbound FDI from being offset by home country taxes. This paper analyzes the impact of territorial tax reforms on the responsiveness of investors to tax sparing agreements, employing a difference-in-difference approach. The analysis uses bilateral FDI panel data for 23 OECD home countries and 154 host countries over the period 2002-2012. We find (using within-country-pair variation over time) that investors from worldwide and territorial tax systems are strongly and approximately equally responsive to the inclusion of this provision in bilateral tax treaties. We also find no evidence that territorial tax reforms in home countries affect FDI in host countries with tax sparing agreements, relative to other host countries.

[Azemar-Territorial Tax Reforms, Tax Sparing Agreements, and Foreign Direct Investment-468.pdf](#)

Tax information exchange with developing countries and tax havens

Julia Braun¹, Martin Zagler^{2,3}

¹ZEW Center for European Economic Research, Germany; ²WU Vienna University of Economics and Business, Austria; ³UPO University of Eastern Piedmont, Italy

The exchange of tax information has received ample attention recently, due to widespread aggressive tax planning and tax evasion. Whilst both participating tax authorities will gain when foreign investments (FDI) are bilateral, we demonstrate that FDI receiving nations will lose in asymmetric situations. We solve a bargaining model that proves that tax information exchange will only happen voluntarily with compensation for this loss. We then present empirical evidence in a global panel and find that a tax information exchange agreement (TIEA) or a double tax treaty with information exchange (DTT) is more likely when the capital importer is compensated thru official development assistance (ODA). We finally demonstrate how the foreign account tax compliance act (FATCA) and similar international initiatives bias the bargaining outcome in favour of capital exporting countries

[Braun-Tax information exchange with developing countries and tax havens-373.pdf](#)

Taxation of Unknown Beneficial Owners: Treaty Shopping with Incomplete Information

Sunghoon Hong

Korea Institute of Public Finance, Korea, Republic of (South Korea)

This paper examines treaty shopping in a game-theoretic model with incomplete information. An investor has private information about her country of residence and income at source and chooses a direct or indirect investment route across national borders to minimize tax. A tax agency has private information about its audit cost and decides whether to audit the investor. An audit is costly but it can generate additional revenue for the tax agency. First I show that no pure-strategy Bayesian Nash equilibrium exists and then construct a mixed-strategy equilibrium. I also compute the decrease in the tax agency's expected payoff due to treaty shopping, and show the payoff dominance of a random audit strategy to the pure always-audit strategy. However, under certain foreign tax credit systems, there is an equilibrium where the investor always chooses the direct route regardless of her type. Thus, treaty shopping can be prevented in equilibrium.

 [Hong-Taxation of Unknown Beneficial Owners-191.pdf](#)

Profitable Detours: Network Analysis of Tax Treaty Shopping**Maarten Van T Riet, Arjan Lejour**

CPB Netherlands Bureau for Economic Policy Analysis, Netherlands, The

This paper considers the international corporate tax system as a network, just like for transportation, and 'shortest' paths are computed, minimizing tax payments for the multinationals when repatriating profits. The 'shortest' paths are constructed using the corporate income tax rates, withholding taxes on dividends, double tax treaties and the double taxation relief methods. We find that treaty shopping leads to an average potential reduction of the combined effective tax rate of more than 6 percentage points. On average, multinationals need only pay taxes of 6 percent, after the corporate income tax in the host country. Moreover, the network approach identifies conduit countries. The United Kingdom heads the rankings of three out of four network centrality measures. The modest result of a simulated crackdown on tax havens illustrates the strong dampening effect treaty shopping has on the remaining double tax rates.

 [Van T Riet-Profitable Detours-154.pdf](#)

9:00am - 11:00am**Room 5033****Value Added Taxation and Information Exchange****B****THE VALUE ADDED TAX INCIDENCE – THE CASE OF THE BOOK MARKET IN CEEC****Arkadiusz Bernal**

Poznan University of Economics, Poland


Conducting effective economic policy requires understanding of how taxes are shifted. The value added tax is an important source of tax revenues in developing countries. The value added tax rates on books in the Czech Republic, Hungary, Poland and Slovakia in 2003 – 2012 differed much and changed several times, hence it was a good case for exploring the tax incidence. The main objective of the article is to answer the question to whom (consumers, capital, labor) and to what extent the burden of the value added tax on books was shifted. Although the tax is often classified as a consumption tax, the tax on books wasn't shifted to consumers at least within five months after a tax rate change. The research suggests that the tax is shifted to capital and labor.

 [Bernal-THE VALUE ADDED TAX INCIDENCE – THE CASE OF THE BOOK MARKET-232.pdf](#)

The taxation of crossborder savings income and the quality and cost of information exchanged**Marcel Gerard**

University of Louvain, Belgium

In today debates about international taxation, either in academic or political spheres, there is a keyword: information exchange. This is true for the taxation of multinational enterprises and also for the taxation of savings income. In this paper we focus on that latter: both the European Union Directive and the US Qualified Intermediary and Foreign Account Tax Compliance Act mechanisms are based on that principle. More specifically we attempt to answer, or at least to highlight, two questions. First why did the US move from unilateral to reciprocal exchange of information? And second, which governments find their best interest in participating to the device proposed by the US authorities?

 [Gerard-The taxation of crossborder savings income and the quality and cost of information exchanged-316.pdf](#)

Information exchange, withholding taxes and optimal capital taxation**Marcelo Arbex**

University of Windsor, Canada

This paper studies optimal capital taxation in open economies with capital tax evasion and strategic interactions between countries. We explore the implications of two types of international tax systems: the international exchange of information on interest income among national tax authorities and nonresident withholding taxes. We show that when countries commit to exchange information, the steady-state optimal domestic and foreign tax rates on capital income are not zero. And the optimal degree of information exchange is negatively related to the marginal cost of making this information available to the other country's tax authority. When it is too costly to exchange information, the Chamley-Judd zero capital tax result survives. When countries levy a withholding tax, the steady-state optimal tax rates on capital income are not zero. Optimal domestic (foreign) capital taxes is proportional to the share of tax revenue the domestic (foreign) country passes on to the foreign (domestic) tax authority.

 [Arbex-Information exchange, withholding taxes and optimal capital taxation-353.pdf](#)

11:30am - 12:30pm**Ed Burke Theatre****Plenary II: Keynote Lecture by Ruud de Mooij, IMF: "How Costly Is the Tax Bias Toward Debt in the Global Economy?"**Session Chair: **Clemens Fuest**, ZEW Mannheim**How Costly is the Tax Bias Toward Debt in the Global Economy?****Ruud de Mooij**

IMF, United States of America

Plenary II: Keynote Lecture

 [de Mooij-How Costly is the Tax Bias Toward Debt in the Global Economy-579.pdf](#)

1:30pm - 3:30pm**Room 4050A****Environmental Taxes and Subsidies****C****Measuring climate policy stringency: A shadow price approach using energy prices****Erik Hille, Wilhelm Alhammer**

HHL Leipzig Graduate School of Management, Germany

To assess the effect of environmental policy on production structures, trade structures or foreign direct investment, a measure for the stringency of policy is necessary. Measures typically used in empirical studies share several disadvantages: They are not available on a sectoral basis to reflect concerns of industry competitiveness; they are not available for a wide range of countries to allow for international comparisons; or they are not broad enough to reflect the multidimensionality of environmental policy. This paper develops a thorough, internationally comparable, sector-specific measure of multidimensional climate policy stringency where a shadow price approach serves as a basis. The approach is applied to climate policy by determining sector-specific emission relevant energy costs on the basis of the sectors' usage of emission relevant energy carriers and the carriers' respective prices. The resulting shadow price estimates are heterogeneous and can be applied in future research to test for carbon leakage and pollution havens.

 [Hille-Measuring climate policy stringency-194.pdf](#)

On the incidence of renewable energy subsidies into land prices - Evidence from Germany**Martin Simmler**^{1,3}, **Peter Haan**^{1,2}¹German Institute for Economic Research (DIW Berlin), Germany; ²Freie Universität Berlin, Germany; ³Oxford University Centre for Business Taxation, United Kingdom

In 2012, the subsidy for electricity produced by wind turbines - introduced with the Renewable Energy Act (REA) in Germany 2000 - amounts to almost 14 billion Euros or roughly 100% of the corporate income tax revenue. The central aim of this subsidy is to foster investment into renewable energy sources by providing long run financial security. In this analysis, we study the incidence of this subsidy on land prices. Our empirical design exploits variation over time in the return of wind turbines due to the introduction of the REA and relates it to changes in transaction prices for agricultural land for 250 non-urban counties between 1997 and 2012. We employ an instrumental variable estimator to ensure unbiased coefficients despite the endogeneity of the plants' location decision. We find that 24% of the wind turbine investor's profits are capitalized into land prices. The results are robust for a wide range of specifications.

 [Simmler-On the incidence of renewable energy subsidies into land prices-333.pdf](#)

Pass-through of CO2 emission costs to hourly electricity prices in Germany**Beat Hintermann**

University of Basel, Switzerland


I estimate the level of emissions cost pass-through to hourly wholesale electricity prices in Germany, based on spot market data. I control for contemporaneous shocks to demand and supply by constructing a detailed supply curve for fossil generation, and intersecting it with residual demand for fossil-based electricity for every hour. Determining the marginal generator allows me to use marginal fuel and carbon costs (rather than prices) as explanatory variables in order to identify the level of cost pass-through directly and with a high level of precision. I find that carbon costs are passed through to electricity prices by at least 84 %, with a central range of 98 %-104 % for different load periods. My results suggest that there is no economic reason for free allowance allocation to the electricity sector, and thus validate the updated allocation rules in Phase 3 of the European Union Emissions Trading Scheme.

 [Hintermann-Pass-through of CO2 emission costs to hourly electricity prices-402.pdf](#)

Welfare Effects and Environmental Impact of an Emissions-Differentiated Car Sales Tax**Robin Stitzing**

Aalto University, Department of Economics

Automobile sales taxes have become a tool for environmental policy. Finland and other countries differentiated existing ad valorem car sales taxes by CO2 emissions: percentage tax rates became increasing functions of model-specific average CO2 emissions. The Finnish 2008 reform created a range of model-specific tax rates from 39% to 138%, compared to the previous non-differentiated tax system with an average tax rate of 77%. I evaluate the market, environmental, and welfare effects of this tax reform. Consumers bought more yet on average cleaner cars, and the reform had a positive net welfare effect. Consumer welfare gains went however disproportionately to high-income households. Heterogeneous price reactions by manufacturers partly mitigate the intended preferential tax treatment of low-emissions cars. Tax policy design therefore needs to consider full equilibrium responses to taxation.

 [Stitzing-Welfare Effects and Environmental Impact of an Emissions-Differentiated Car Sales Tax-404.pdf](#)

1:30pm - 3:30pm
Room 4047

Fiscal Decentralization and Soft Budget Constraints

C

Rational Bailout Expectations in the Italian Municipal Bond Market**Massimo Bordignon**^{2,4}, **Alessia Giglio**³, **Gilberto Turati**¹¹University of Torino, Italy; ²Catholic University Milan, Italy; ³Ernst & Young, Italy; ⁴CESifo

We follow a suggestion by Rodden (2006) to study SBC problems affecting local governments in Italy. We try to capture bailing out expectations by looking at the relationships between the interest charged by institutional investors for holding Italian Municipal debt and variables characterizing the financial characteristics of the same Municipalities. The general idea is that the less the risk premium reflects these characteristics, the larger should be the expectations of bailing out. The analysis is based on all the 1,388 BOC issued by 529 Italian municipalities between 1996 and 2011. Results confirm the presence of SBC problems.

 [Bordignon-Rational Bailout Expectations in the Italian Municipal Bond Market-209.pdf](#)

Decentralization and the duration of fiscal consolidation: shifting the burden across layers of government**Agnese Sacchi**¹, **Dirk Foremny**², **Simone Salotti**³¹Universitas Mercatorum, GEN; ²Universitat de Barcelona, IEB; ³Oxford Brookes University

We study the relationship between fiscal decentralization and the duration of the fiscal consolidation episodes occurred in 17 OECD countries between 1978 and 2009. It appears that consolidation lasts longer when expenditure decentralization is higher. We also find that transfers from higher levels of government are reduced during consolidation episodes. This suggests that, given a certain institutional structure within the country, central governments are able to shift the burden of consolidation towards lower tiers of government by reducing intergovernmental transfers. This is particularly the case when sub-national governments have little legal autonomy to raise tax revenues and cannot affect executive decisions taken at the central level.

 [Sacchi-Decentralization and the duration of fiscal consolidation-229.pdf](#)

Endogenous Leadership in a Federal Transfer Game**Bodhisattva Sengupta**

Indian Institute of Technology-Guwahati, India

The paper explores the issue of leadership in central transfer within a federation. In a federal country, provinces, in anticipation of the ultimate federal bailout, may spend more than what is optimal. Such behaviour creates negative fiscal externalities and harms the central government. To counter such tendencies, it is suggested by policymakers that central authority should always be a first mover in the transfer game. In spite of such recommendations, central governments across the world choose to be the second mover from time to time. We explore the conditions, other than the familiar political economy arguments, under which the central government optimally chooses to be the second mover. The key determinants of first or second mover advantages in such situations are the modes of transfer (specific purpose or general purpose) as well as the degree of public good spillover between the two tiers of government.

 [Sengupta-Endogenous Leadership in a Federal Transfer Game-416.pdf](#)

EMU and the Size of Public Sector**Erik Mäkelä**

University of Turku, Finland

The objective of this paper is to examine whether the membership in EMU increases the size of public sector. The estimation of the EMU-effect on the government outlays/GDP-ratio is based on the synthetic counterfactuals. This paper finds that the sizes of public sectors are generally higher in EMU-countries than what those would have been without the monetary unification. Moreover, the growth in government spending can be explained mainly with the increase in social security transfers. The estimated effects are particularly large in countries which have had the most instable governments and the highest level of political competition in the Eurozone. These findings support the hypothesis that political distortions that already produce excessive deficits under monetary autonomy may be worsened by the move to monetary union.

 [Mäkelä-EMU and the Size of Public Sector-432.pdf](#)

1:30pm - 3:30pm
Room 5025

Fiscal Federalism I

C

Does Endogenous Timing Matter in Implementing Partial Tax Harmonization?

Jun-ichi Itaya¹, [Chikara Yamaguchi](#)², Makoto Okamura³

¹Hokkaido University; ²Hiroshima Shudo University; ³Hiroshima University

The endogenous timing of moves is analyzed in a repeated game setting of capital tax competition, where a subgroup of countries implementing partial tax harmonization and outside countries choose whether to set capital taxes sequentially or simultaneously. It is shown that the simultaneous-move outcome prevails in every stage game of the infinitely repeated tax-competition game as its subgame perfect Nash equilibrium (SPNE) if a

tax-union consists of similar countries, whereas both the simultaneous-move and (Stackelberg) sequential-move outcomes can be sustained as SPNEs when a tax-union consists of dissimilar countries. This makes a sharp contrast with the finding of Ogawa (2013) in which when asymmetric countries in terms of productivity have opposite incentives towards the terms of trade in order to manipulate the price of capital in their favor, there exists only a simultaneous-move Nash equilibrium in his two-stage game.

 [Itaya-Does Endogenous Timing Matter in Implementing Partial Tax Harmonization-144.pdf](#)

Economic Integration and Interdependence in Tax Policy

[Carolyn Holzmann](#), [Axel von Schwerin](#)

University Erlangen-Nuremberg, Germany

This paper provides empirical evidence for interdependence in municipalities' tax policies. We study tax policy interdependence in the highly economically integrated European Metropolitan Area Frankfurt/Rhein-Main that spreads across two German states, Hesse and Rhineland-Palatinate. For empirical identification, we exploit two reforms in the Hessian local fiscal equalization scheme in the 1990's that induced quasi-experimental variation in Hessian metropolitan municipalities' business tax rates. In response to the Hessian metropolitan municipalities' tax rate increase, Rhineland-Palatinate metropolitan municipalities increase their local business tax rates more moderately as compared to a matched control group of Rhineland-Palatinate nonmetropolitan municipalities. Consequently, the average tax-multiplier differential between metropolitan municipalities in Rhineland-Palatinate and Hesse stays stable during the analysis period. Comparing our findings to those of previous quasi-experimental studies that found no empirical evidence for tax policy interdependence, we conclude that strong economic integration of municipalities seems a key determinant for the interdependence of their tax policies.

 [Holzmann-Economic Integration and Interdependence in Tax Policy-253.pdf](#)

Yardstick Competition and Efficiency of Local Public Goods

Yasuyuki Nishigaki¹, [Yuzo Higashi](#)², Hideki Nishimoto¹

¹Ryukoku University, Japan; ²Kobe University of Foreign Studies

This paper analyzes the efficiency of the equilibrium of yardstick competition among decentralized local governments by introducing the factor of the residents' choice between private goods and local public goods. The yardstick model included in the paper features incomplete contracts between principal and agent (residents and a local government, respectively) and states that a local government attains accountability through the voting behavior of its residents in accordance with their yardstick comparison of their own locality with their neighboring localities. The results we obtained from the analysis are as follows. First, we find that local governments tend to under-supply local public goods, even though the local governor pays his/her maximal effort in order to get re-elected in the next election. Second, decrease in regional disparities in economic and natural environment or decrease in an extent of asymmetric information between residents and their governor improves the efficiency of yardstick equilibrium.

 [Nishigaki-Yardstick Competition and Efficiency of Local Public Goods-359.pdf](#)

Federal Equalization Schemes Under Competition

Johannes Becker, [Michael Kriebel](#)

University of Münster, Germany

This paper considers optimal fiscal equalization in a federation and formalizes the argument that, under certain circumstances, federations have an incentive to foster tax competition among their subunits in order to attract tax base from other federations. We show that optimal fiscal equalization serves the purpose of choosing an optimal level of tax competition and is chosen as a trade-off between three goals. First, decentralized tax rate setting has positive fiscal externalities within the federation and, thus, tax rates are inefficiently low. Second, in the presence of hold-up problems in investment, tax rates may be inefficiently high. Then, tax competition serves as a commitment device for low future tax rates. Third, generous fiscal equalization within the federation is a commitment to not aggressively compete with subunits outside the federation for tax base; as a consequence, with optimal equalization, equilibrium tax rates are higher within and outside the federation.

 [Becker-Federal Equalization Schemes Under Competition-386.pdf](#)

1:30pm - 3:30pm

Beckett Theatre 2

Fiscal Policy I

C

Redistributive State Taxes, Migration and Wage Capitalization

[Seth Giertz](#)¹, [Mehmet Serkan Tosun](#)²

¹University of Nebraska, United States of America; ²University of Nevada, Reno, United States of America

The degree to which redistributive state taxes affect migration between states and the related question of the ability of states to redistribute income remain unsettled issues, both empirically and theoretically. For example, Feldstein and Wrobel (1998) argue that people are quite responsive to redistributive state taxes. They also find that such taxes are capitalized into wage rates, making attempts by states to redistribute income largely ineffective. On the other hand, Leigh (2008) finds that people are not very responsive to state taxes and states have a great deal of ability to redistribute income. In this paper, we build on Feldstein and Wrobel (1998) by using Current Population Survey (CPS) data to estimate wage capitalization. We use more recent CPS data, paying special attention to more recent tax changes and to documented declines in interstate migration over the past two decades.

 [Giertz-Redistributive State Taxes, Migration and Wage Capitalization-361.pdf](#)

Earning or Learning? The impact of relaxing shop opening hours restrictions on education and earnings

Simon Bensnes, [Bjarne Strom](#)

Norwegian University of Science and Technology, Norway

This paper studies the impact of deregulation of shop opening hours on schooling decisions and subsequent earnings. We use a national reform in shop opening hour restrictions in Norway in 1985 to provide quasi-experimental evidence by exploiting that the bite of the reform varied considerably across municipalities. We find that increased potential opening hours substantially reduced the average probability to graduate from high school and especially so for the group of students with lower educated parents. These students also experienced a reduction in completed years of education and some earnings reduction. Deregulation increased youth employment in the retail sector and the evidence is consistent with the view that opportunity cost of study time is an important determinant of human capital investments.

 [Bensnes-Earning or Learning The impact of relaxing shop opening hours restrictions-256.pdf](#)

The effects of higher unemployment insurance benefits on subsequent labor market outcomes: evidence from an RKD approach

Kyyrä Tomi^{1,2}, [Pesola Hanna](#)¹

¹VATT, Finland; ²IZA

This paper analyzes the effects of unemployment insurance (UI) benefits on subsequent labor market outcomes. Higher benefits may allow a worker to search longer for a better job but, on the other hand, human capital may depreciate during a prolonged unemployment spell. We exploit a kink in the relationship between previous earnings and UI benefits in Finland to identify the causal

effect of the benefit level on subsequent outcomes by using a regression kink design. According to our findings, higher UI benefits have a negative effect on employment and earnings in the years following the unemployment spell. Partial unemployment is also effected, with lower UI benefits leading to an increase in the share of days spent on partial unemployment benefits. The benefit level also appears to increase unemployment durations, but the effects are not precisely estimated.

 [Tomi-The effects of higher unemployment insurance benefits-199.pdf](#)

Evolutions in Consumption Inequality and Poverty in Greece: the Impact of the Crisis and Austerity Policies

Georgia Kaplanoglou, Rapanos Vassilis T.

University of Athens, Greece

Greece is the country hit hardest in output terms by the crisis and subsequent fiscal consolidation strategies, suffering a cumulative output loss of about 30% since 2008. The present paper presents evidence that along with declining average living standards, consumption inequality has seriously grown, fueled primarily by a disproportionate drop in the consumption levels of what can be considered the middle class. At the same time, significant indirect tax hikes have further increased inequality in consumption expenditure. The paper also shows that several reforms launched in the name of reducing labour costs, broadening the tax base or rationalizing the targeting of social benefits have had detrimental effects on one of the most vulnerable population groups, namely families with children. Even if growth picks up in the years to come, the social consequences of the crisis will be long lasting.

 [Kaplanoglou-Evolutions in Consumption Inequality and Poverty in Greece-170.pdf](#)

1:30pm - 3:30pm
Boardroom 2026

Fiscal Rules, Public Debt, and the Economy

C

Fiscal Rules, Fiscal Space and their Macroeconomic Effects

Carolin Nerlich¹, Wolf Heinrich Reuter²

¹European Central Bank; ²Vienna University of Economics and Business, Austria

In this paper we analyse the interaction of fiscal rules and fiscal space. We find that fiscal rules have a significant positive impact on fiscal space. Furthermore, the analysis shows that countries with more fiscal space increase discretionary expenditures, but that this effect is significantly reduced if fiscal rules are in place. This can be interpreted such that fiscal space makes fiscal policy more pro-cyclical while fiscal rules seem to counteract this pro-cyclicality. Regarding the different types of fiscal rules, we find strong effects from expenditure rules and to a lesser extent from balanced budget rules, but none from debt rules.

 [Nerlich-Fiscal Rules, Fiscal Space and their Macroeconomic Effects-213.pdf](#)

Does Baumol's cost disease produce adverse growth effects under a balanced budget rule?

Carsten Colombier

Federal Finance Administration, Switzerland; Institute for Public Economics, University of Cologne, Germany

Based on a panel of 22 OECD countries this present paper shows that the government sector is partly contracted by Baumol's cost disease. The most affected government services are education and healthcare. Furthermore, this paper shows that Baumol's cost disease produce adverse consequences under a balanced budget rule such as a debt brake, which is a key element of the EU Fiscal Compact. Governments face a serious dilemma. Breaching the rule would certainly cause reputational losses for governments, which might affect their borrowing costs. Nevertheless, as public expenditure on education and healthcare can be productive a permanent cut under a balanced budget rule would mean foregoing growth possibilities in all likelihood. Additionally, we apply an innovative statistically robust estimation method, which is particularly suited to deal with the distinct heterogeneity of panel datasets.

 [Colombier-Does Baumol's cost disease produce adverse growth effects under a balanced budget rule-156.pdf](#)

Fiscal Policy in Rare Disaster Models: Bohn meets Barro in Japan

Shigeki Kunieda

Hitotsubashi University, Japan

In this paper, I consider the role of risk of rare disasters in determination of equity premium and safe interest rate, also consider the desirable fiscal policy with rare disasters. Using the projected probability and size of economic damage of great earthquakes in Japan, I show that different from Sakuragawa and Hosono (2010)'s claim, Japanese equity premium can be explained with consideration to risk of rare disasters such as great earthquakes. Further, I consider desirable fiscal policy with consideration to risk of rare disasters using one model in Bohn (1999) incorporating Barro (2006, 2009)'s rare disaster model. Larger primary surplus is desirable than the primary surplus suggested by the model not incorporating risk of rare disasters. Also, lower safe interest rate of government bonds may imply desirability of faster fiscal reconstruction if the reasons behind lower safe interest rate are larger probability and more serious economic damage of rare disasters.

 [Kunieda-Fiscal Policy in Rare Disaster Models-450.pdf](#)

Government Debt and Contagion of Economic Crisis: a Global Public Good Model

Toshihiro Ihori¹, Martin McGuire², Shintaro Nakagawa³

¹University of Tokyo, Japan; ²University of California-Irvine, USA; ³Shimonoseki City University, Japan

Government debts have sometimes caused economic crises, and thus been the focus of attention in economics. However, relatively less attention has been given to the influence of international spillover of the risk of crisis caused by the debt. Preventing economic crises resulting from government debt can be considered as a global public good. From this perspective, we examine the interactions of governments that issue government bonds in the global financial market. Then, we explore how the government's behavior is influenced by an international organization that coordinates a non-market loan between the governments. This paper shows the condition that a non-market loan from a high-income country's government to a low-income country's government reduces the total of the government bonds of the two countries, and reduces the risk of economic crisis.

 [Ihori-Government Debt and Contagion of Economic Crisis-360.pdf](#)

1:30pm - 3:30pm
Room 5033

Health III

C

Unconditional transfers goes to health? Evidence from Brazilian Municipalities

Enlison Mattos¹, Fernanda Ribeiro²

¹Fundação Getulio Vargas, Brazil; ²Fundação Getulio Vargas, Brazil

This study assesses the impact of unconditional transfer resources on the health indicators of Brazilian municipalities. This transfer refers to the Participation Fund of Municipalities (FPM) where at least 15% of its value should be spent on public health. Based on a discontinuity of the rules of transfers, we explore Regression Discontinuous Design for the years 2002 to 2010, and find: (i) no significant effect of FPM on mortality reduction; (ii) a robust and significant reduction in morbidity, treated municipalities – on the right side of thresholds – on average have a per capita rate of morbidity 0.00821% lower than those on the left side of the cutoff points; (iii) the mechanisms through which a reduction on morbidity could be operated would be due to estimated increases in preventive measures such as consultations and medical and nurses visits, these were bigger for the treated group in, respectively, 0.32%, 0.038% and 0.039%.

 [Mattos-Unconditional transfers goes to health Evidence from Brazilian Municipalities-262.pdf](#)

Inequality Effects of Fiscal Policy: Analysing the Benefit Incidence on Health Sector, India

Kausik K. Bhadra

National Institute of Public Finance and Policy, India

Analysing inequality effect of fiscal policy is a rare area of research. Using the unit record data of recent NSS rounds on health, the

paper analyses the benefit incidence of public health spending, categorised by region, gender and economic class. Morbidity (in-patient service delivery) data among quintile-wise MPCE classes across three Indian states – Bihar, West Bengal and Kerala - are examined to decipher whether the benefit incidence of public spending is pro-poor. The concentration curves reveal significant regional and gender differentials in access and utilisation of health services at sub-national levels of government of India. Kerala explicate a different scenario where poor 'voted with feet' from public sector. The co-existence of private and public service provisioning in health sector may be one of the reasons for this behavioural 'exit' in Kerala, however it is equally interesting to note the 'voice' elements when the targeting of public spending reveals more pro-rich.

 [Bhadra-Inequality Effects of Fiscal Policy-329.pdf](#)

A New Hip at the Sea-Side - Medical Tourism and Hospital Competition

Laura Birg

University of Göttingen, Germany

This paper studies the impact of patient mobility on quality in a hospital market with a regulated price in a two-country-extension of the framework of Brekke et al. (2011a). Countries may differ in treatment price and/or hospital density. Under identical treatment prices patient mobility decreases quality in the home (sending) country and increases quality in the foreign (receiving) country. Under identical densities of hospitals patient mobility increases (decreases) quality in the home (sending) country, if the fraction of mobile patients is sufficiently low (high) and/or the number of hospitals is sufficiently high (low), and increases quality in the foreign (receiving) country.

 [Birg-A New Hip at the Sea-Side-474.pdf](#)

Parental job loss due to plant closure and child health

Eva Mörk¹, Anna Sjögren², Helena Svaleryd¹

¹Uppsala University, Sweden; ²IFAU, Sweden

Displaced workers have lower future earnings, are more likely to experience periods of unemployment, bad health and higher risk of divorce. This could in turn have detrimental effects for the children of these workers. In this paper we estimate the effect of parental exposure to plant closure on children's health, educational success and unemployment as young adults. Using propensity score techniques to establish causal effects we find that parental exposure to plant closure has no detrimental effects on child health measured as hospitalization. However, we find an increased mortality risk among children with displaced mothers. Also we find some negative consequences on grades and somewhat higher risk of unemployment at age 20-23.

 [Mörk-Parental job loss due to plant closure and child health-130.pdf](#)

1:30pm - 3:30pm
Beckett Theatre 1

Inequality, Bequests, and Taxation

C

Too much Globalization can be Taxing

Peter Egger^{1,2,3}, Sergey Nigai^{1,2}, Nora M. Strecker¹

¹ETH Zurich, Switzerland; ²CESifo; ³Center for Economic and Policy Research

We identify the existence of a causal link between globalization and changes in the relative income tax schedules, and quantify the magnitude of the effect that the former has on the latter. First, we explore general equilibrium insights from the new trade theory models to derive a novel instrument for globalization and show that it increases gross income inequality. Second, we use this instrument along with a panel dataset that covers 53 biggest economies between 1980 and 2007 to uncover the effect of globalization on the relative income tax schedule for different income groups. We find that globalization leads to relatively higher tax progressivity for incomes above the median; however, for neither low nor very high incomes is this the case.

 [Egger-Too much Globalization can be Taxing-182.pdf](#)

Evidence of inheritance tax planning among wealthy Norwegians

Elin Halvorsen¹, Marianne Lefsaaker Johansson²

¹Statistics Norway, Norway; ²Oslo Economics, Norway

The focus in this paper is tax avoidance, or tax planning, induced by the Norwegian inheritance tax. The goal is two-fold: one is to assess the efficiency of the design of the inheritance tax scheme. Although it is well known that the wealthy have means and will to avoid transfers taxes, the quantitative effect of their undertakings is less known. The second goal is to evaluate to what degree official statistics on inheritances, based on reported inheritances through the inheritance tax system, undervalues the actual amount of inheritance transferred. This is highly relevant for the ongoing debate on the relative importance of inheritances and transferred wealth.

 [Halvorsen-Evidence of inheritance tax planning among wealthy Norwegians-451.pdf](#)

Unequal Inequalities: Do Progressive Taxes Reduce Income Inequality?

Denvil Robert Duncan¹, Klara Sabirinaova Peter²

¹Indiana university, United States of America; ²University of North Carolina, United States of America

This paper analyzes the effect of changes in the structural progressivity of national income tax systems on observed and actual income inequality. Using several unique measures of progressivity over the 1981-2005 period for a large panel of countries, we find that progressivity reduces inequality in observed income, but has a significantly smaller impact on actual inequality, approximated by consumption-based Ginis. An

empirical comparative analysis shows that the differential effect on observed vs. actual inequality is much larger in countries with weaker legal institutions that facilitate tax evasion and pro-rich redistribution. Substantial differences in inequality response to changes in top vs. bottom rates are also uncovered.

 [Duncan-Unequal Inequalities-483.pdf](#)

Bequests and inequality - Evidence from Swedish population wide registers

Mikael Elinder, Oscar Erixson, Daniel Waldenström

Uppsala University, Sweden

This study estimates the effect of inheriting wealth on inequality and mobility in the wealth distribution. Using new population-wide register data on inheritances in Sweden, we find that inheritances reduce inequality and increase mobility among heirs. Richer heirs indeed inherit larger amounts, but less affluent heirs receive substantially larger inheritances relative to their pre-inheritance wealth than do richer heirs. The Swedish inheritance tax had a small overall impact but appears to have mitigated the equalizing effect of inheritances. We also investigate the potentially confounding role of pre-inheritance gifts and behavioral responses to expectations about future inheritances, but neither of them change the main finding that inheritances reduce wealth inequality.

 [Elinder-Bequests and inequality-346.pdf](#)

1:30pm - 3:30pm
Room 4050B

Migration

C

(Un-)Balanced Migration of German Graduates

Tina Haussen, Silke Uebelmesser

Friedrich-Schiller-University Jena, Germany

We empirically analyze sub-national migration of graduates in Germany for

employment reasons and its determinants. We use a longitudinal, representative survey-based dataset of students who graduated in the year 2004/05. For the first five years after graduation, we not only observe the transition to the labor market but also the subsequent migration patterns. We find that, five years after graduation, about 60% of the graduates are employed in the state in which they graduated either because they have stayed or returned. Whether or not graduates migrate largely depends on the graduates' migration experience and job search characteristics but also on the states' economic conditions. This results

in an unbalanced migration of graduates between German states. In the light of public finance considerations, our analysis may provide some rational for correction mechanisms such as to increase the financing responsibility of the federal government or to introduce compensation mechanisms between states.

[Haussen-\(Un-\)Balanced Migration of German Graduates-341.pdf](#)

Transition Dynamics of a Mass Deportation or Emigration

James Allen Feigenbaum

Utah State University, United States of America

In discussions about immigration, the possibility of deporting the whole population of illegal immigrants is often bandied about. Most economists, and probably most people, intuit that this would be a bad idea, but rigorous arguments are difficult to find. Here we construct a simple three-period overlapping-generations model with high- and low-educated workers. Illegal immigrants are assumed to be subsumed within the class of low-educated workers. We study the transition dynamics following the deportation of a large fraction of low-educated workers. In the long run, the economy returns to the original intrinsic equilibrium, albeit with a smaller population and GDP. In the very short run, the deportation acts similarly to a redistributive tax, transferring income from the high-educated workers to the low-educated workers. Since low-educated workers far outnumber high-educated workers, the detrimental effect on an individual high-educated worker is much larger than the benefit accruing to an individual low-educated worker.

[Feigenbaum-Transition Dynamics of a Mass Deportation or Emigration-464.pdf](#)

The Effect of Immigration and Immigration Policies on the Underground Economy

Emanuele Bracco¹, Luisanna Onnis²

¹Lancaster University, United Kingdom; ²Lancaster University, United Kingdom

This paper explores the link between the shadow economy and immigration and the effect of immigration amnesties on this link. We perform an empirical analysis on a newly compiled dataset of Italian immigration and shadow economy statistics. We exploit the discontinuity created by the 2002 Italian immigration reform, which granted an amnesty to almost 700,000 illegal immigrants. We use a panel of province-level aggregate statistical information on the labour market and the economy, and a repeated cross section of households surveyed by the Bank of Italy. We document a robust positive relationship between immigrants and the underground economy. This link is substantially weakened by the 2002 amnesty.

[Bracco-The Effect of Immigration and Immigration Policies-350.pdf](#)

Taxing the Pensions of an Internationally Mobile Labor Force: Portability Issues and Taxation Options

Robert Holzmann

Austrian Academy of Science, Austria

While portability issues of pensions received more attention in recent years the taxation of internationally portable pensions, however, remains largely terra incognita – both operationally and conceptually. This paper explores how best to tax retirement income provisions during a nonfinancial or financial accumulation and decumulation phase. Based on an analytical model how to establish portability of pensions through the disentangling of the insurance, savings and redistributive component it explores the concept of a deferred accumulated tax (expenditure) component that determines the next saving amount made portable when changing place of work. This analytical framework is used to investigate the key options and implementation choices across countries that apply the same or different taxation rules – TEE or EET. The analysis boils down to the search for viable alternative mechanisms of border adjustments that can be achieved through the accumulated tax expenditure account under most, but not all, tax regime differences.

[Holzmann-Taxing the Pensions of an Internationally Mobile Labor Force-340.pdf](#)

1:30pm - 3:30pm
Ui Chadhain Theatre

Public Finance in Developing Countries

C

Informal Labor and the Efficiency Cost of Social Programs: Evidence from 15 Years of Unemployment Insurance in Brazil

Francois Gerard¹, Gustavo Gonzaga²

¹Columbia University, United States of America; ²Pontifical Catholic University of Rio de Janeiro, Brazil

It is widely believed that the presence of a large informal sector increases the efficiency cost of social programs in developing countries. We evaluate such claims for the case of unemployment insurance (UI). We estimate the efficiency cost from distorting workers' incentives to return to a formal job using administrative data from Brazil. We first show that exogenous increases in UI potential duration led to falls in formal-sector reemployment rates, likely due to offsetting rises in informal employment. However, because reemployment rates in the formal sector are low, most beneficiaries would draw the UI benefits absent behavioral responses. Consequently, only a fraction of the UI costs is due to perverse incentive effects and the efficiency cost is limited: for instance, it is smaller than existing estimates for the US. We then show that the efficiency cost of longer UI benefits in fact increases with labor market formality in Brazil.

[Gerard-Informal Labor and the Efficiency Cost of Social Programs-121.pdf](#)

Consumers as tax auditors

Joana Naritomi

London School of Economics and Political Science, United Kingdom

Access to third-party information trails is widely believed to be critical to the development of modern tax systems, but there is limited direct evidence from changes in information trails. This paper investigates the enforcement effect of an increased availability of third-party information, and sheds light on how governments can harness this information despite collusion opportunities. I exploit unique administrative data on firms and consumers from an anti-tax evasion program in Sao Paulo, Brazil (Nota Fiscal Paulista) that created monetary rewards for consumers to ensure that firms report final sales transactions, and establishes an online verification system that aids consumers in whistle-blowing firms. Using variation in intensity of exposure to the policy, I estimate that firms' reported revenue increased by at least 22% over four years. The compliance effect is stronger for firms that face a high volume of consumers, consistent with positive shifts in audit probability from whistle-blower threats. I also investigate the effect of whistle-blowers directly: firms report 14% more receipts and 6% more revenue after receiving the first consumer complaint. To study the role of the value of rewards in improving enforcement, I show evidence consistent with the possibility that lottery incentives amplify consumer responses due to behavioral biases, which would make it more costly for firms to try to match government incentives in a collusive deal. I conclude by discussing policy implications.

[Naritomi-Consumers as tax auditors-151.pdf](#)

The rise of employees and growth of tax capacity

Anders Ditlev Jensen

LSE, United Kingdom

This paper studies how the transition from self-employment to employee employment over the development path can explain growth in personal income tax (PIT) capacity. Proxying for development using either 84 household surveys across countries today or 140 years of historical data within-US (1870-2010), I first establish two new stylized facts: within-country, employee employment share is increasing in deciles of the income-distribution, and the profile steadily moves leftward as development occurs; and, the PIT exemption threshold progressively moves down the income-distribution over the development path, but is located to maintain a constantly high employee employment-share in the tax-base above the threshold. These findings are consistent with a model where employee

employment proxies for third-party reported (enforceable) income, and where a local increase in third-party income leads to optimally lowering the exemption threshold due to revised marginal revenue-cost trade-off. I test the model on panel data for the US States, exploiting within-State variation in State PIT.

[Jensen-The rise of employees and growth of tax capacity-422.pdf](#)

1:30pm - 3:30pm
Swift Theatre

Public Policy and Economic Geography

C

Behavioral Responses to Local Tax Rates: Quasi-Experimental Evidence from a Foreigners' Tax Scheme in Switzerland

Kurt Schmidheiny, Michaela Slotwinski

Universität Basel, Switzerland

This paper exploits an institutional feature of Swiss tax law concerning the income taxation of foreign employees living in Switzerland (Quellenbesteuerung). The implied discontinuities (tax notches) allow us to draw causal inferences on behavioral reactions of individuals to taxation within a quasi-random setting. We study the effect of local taxes on individuals' income adjustment to preferential tax schemes (bunching) and tax induced mobility at such institutional tax notches. We find evidence that foreigners with income around the tax notch strategically adjust their income while adjustments are more pronounced in the negative notch case (drop in the average tax rate). We do not find evidence that local income tax rates affect the initial location choice foreigners in Switzerland. However, we do find significant effects of local income tax rates on the relocation decision and location choice once these foreigners receive permanent residence status after 5 years of arrival. These effects materialize for high income earners.

[Schmidheiny-Behavioral Responses to Local Tax Rates-159.pdf](#)

Is decentralized health care provision amenable to block grants?

Marcus Adrianus Cornelis Kattenberg¹, Wouter Vermeulen^{1,2,3}

¹CPB Netherlands Bureau for Economic Policy Analysis; ²Vrije Universiteit; ³Spatial Economics Research Center

Understanding the impact of central government grants on decentralized health care provision is of crucial importance for the design of grant systems, yet empirical evidence on the prevalence of flypaper effects in this domain is rare. We study the decentralization of home care in the Netherlands and exploit the gradual introduction of formula-based equalization to identify the effect of exogenous changes in an unconditional block grant on local expenditure and utilization. A one euro increase in central government grants raises local expenditure by fifty cents, while adjustments occur through the number of hours as well as through substitution between basic and more advanced types of assistance. These findings suggest that conditioning of grants is not required for the central government to retain some control over the decentralized provision of care.

[Kattenberg-Is decentralized health care provision amenable to block grants-214.pdf](#)

Productivity Growth, Human Capital, and Technology Spillovers

Peter H. Egger

ETH Zurich, Switzerland

This paper assesses the strength of productivity spillovers nonparametrically in a data-set of 12 industries and 231 NUTS2 regions in 17 European Union member countries between 1992 and 2006. It devotes particular attention to measuring catching up through spillovers depending on the technology gap of a unit to the industry leader and the local human capital endowment. We find evidence of a non-(log-)linear relationship between the technology gap to the leader as well as human capital and growth. Spillovers are strongest for units with a small technology gap to the leader and with abundant human capital. The latter emphasizes the importance of public policy towards fostering higher education.

[Egger-Productivity Growth, Human Capital, and Technology Spillovers-299.pdf](#)

Micro-regional Evidence on Financial-Crisis Effects

Maximilian Ehrlich. von¹, Peter Egger²

¹University of Bern, Switzerland; ²ETH Zurich, Switzerland

This paper analyzes the economic implications of the Economic and Financial Crisis of 2008/09 in a micro-geographical domain of places in Europe. It provides novel evidence on the importance of initial conditions, relative centrality, transport accessibility, and geographical as well as climatic advantages for the relative intensity of the exposure of places to shocks. Using satellite night-light data in combination with a rich data-set on agglomeration, local infrastructure, geography and climate, the paper identifies central places to be much more vulnerable to the Crisis than peripheral ones in most dimensions of centrality and peripherality considered. This suggests that political means to cushion severely adverse effects of a crisis should focus on agglomerations and central places rather than the periphery. A better transport network accessibility appears to moderate adverse negative shocks as induced by the Crisis, though.

[Ehrlich. von-Micro-regional Evidence on Financial-Crisis Effects-300.pdf](#)

1:30pm - 3:30pm

Ed Burke Theatre

Roundtable on BEPS: Principles and Pragmatism

Session Chair: **Richard Collier**, PwC

C

Panelists:

Tom Neubig (OECD Centre for Tax Policy and Administration),

Peter Reilly (PwC),

Nadine Riedel (Ruhr University Bochum, Germany)

1:30pm - 3:30pm

Room 5039

Taxation and Development

C

The role of Government stability in aid-tax nexus in WAEMU countries.

Hermann Djedje Yohou^{1,2}, Michael Goujon¹, Wautabouna Ouattara²

¹Center for Studies and Research on International Development CERDI, France; ²Felix Houphouet Boigny of Abidjan, Côte d'Ivoire

We examine the role of government stability in foreign aid-tax relationship in WAEMU countries over the period 1986-2010. We show that the tax effects of aid are gradual and varying across countries according to the level of government stability; i.e, its ability to conduct its declared programs. The Panel Smooth Threshold Regressions indicate that a positive effect of aid requires a minimum ability of recipient governments to strictly conduct their reforms. Below this cutoff, aid negatively affects tax performances. Consequently, we provide estimates of individual time varying coefficients of aid effects. In general, the positive effects are marked since the mid of 1990 decade. However, decomposing aid into its forms of loans, technical and non-technical grants provides nuanced results.

[Yohou-The role of Government stability in aid-tax nexus in WAEMU countries-184.pdf](#)

Foreign Aid, Governance And Economic Growth In Sub-Sahara African Countries: Does A Cap Fits All?

Adeniyi Jimmy Adedokun

McPherson University, Nigeria

This study revisits aid effectiveness debate using more recent data. Adopting the neoclassical framework, the study investigates the relationships among foreign aid, governance and economic growth in Sub-Sahara African (SSA) countries. Results show that good governance improves aid effectiveness in SSA. Also, it is evidenced that one cap does not fit all in SSA, that is, heterogeneity matters. The impact of aid is felt differently across groups of countries.

[Adedokun-Foreign Aid, Governance And Economic Growth In Sub-Sahara African Countries-365.pdf](#)

Tariff Evasion in Sub-Saharan African Countries: Beware China**Temesgen Worku Bezabih**

Vrije University, Amsterdam, Netherlands, The

Existing literature demonstrates that tariff evasion is positively correlated with tariff rate. Using the 2008 and 2010 trade data this paper shows that in ten of eleven Sub-Saharan African countries the trade gap increased with increase in tariff rates. The paper also shows that imports from China is subject to higher tariff evasion than imports from OECD countries indicating the effect of corruption level of exporting country on tariff evasion. In general, a one percentage-point increase in the tariff rate is associated with a 1.87% increase in the trade gap on imports from China and a 1.32% increase on imports from OECD countries. In Madagascar, a one percentage-point increase in the tariff rate is associated with a 4.03% increase in the trade gap on imports from China and a 1.12% increase on imports from OECD countries. The findings demonstrate one of the challenges of developing countries in trading with China.

 [Bezabih-Tariff Evasion in Sub-Saharan African Countries-488.pdf](#)

The Consequences of the Value-Added Tax on Inequality**Kaisa Alavuotunki¹, Jukka Olavi Pirttilä²**¹Aalto University, University of Tampere; ²UNU-WIDER, University of Tampere

The adoption of the value-added tax has arguably been one of the most important tax policy measures worldwide, but is also one of the most heatedly debated. While some argue that the VAT has served as a useful tool to boost government revenue, others claim that it is also a regressive tax, contributing to increased inequality within the developing world. Using newly released high-quality macro data, this paper offers updated estimates of the revenue impacts of the VAT and the first estimates on its consequences on inequality at the macro level. The results from instrumental variable estimations reveal that the revenue consequences of the VAT have been less positive than earlier work indicates. VAT adoption has not led to increased inequality, suggesting that the move to the VAT has not undermined equitable development.

 [Alavuotunki-The Consequences of the Value-Added Tax on Inequality-375.pdf](#)

1:30pm - 3:30pm
Room 5052

The Political Economy of Fiscal Federalism

C

rent-seeking elite, mobile assets, and the coevolution of political institutions**Arthur Silve^{1,2}**¹Sciences Po, France; ²Paris School of Economics

Political institutions in separate countries may influence each other. This paper examines the role of capital mobility as one such channel of mutual influence. Elite groups can extract rents from their populations. However, capital can be shifted towards countries with less extractive policies. This affects the political trajectory of countries with rent-seeking elite. (1) When the ownership of capital is distributed widely in the population, capital mobility disciplines the elite, and helps capital owners buy their way into the elite. (2) Conversely if the ownership of capital is limited to the elite, they may take advantage of the efficient policies abroad while increasing rent extraction on captive assets at home. (3) A small country in a position to set up reliable institutions may become a tax haven to attract the capital held by foreign elite. In turn, these three mechanisms degrade the institutions and policies of the efficient countries.

 [Silve-rent-seeking elite, mobile assets, and the coevolution-499.pdf](#)

Crissing the Crosses: On Yardstick Competition Among Christian Churches**Andrea Lassmann³, Peter Egger¹, Köthenbürger Marko²**¹ETH Zurich, Switzerland; ²ETH Zurich, Switzerland; ³ETH Zurich, Switzerland

Unlike in most countries of the Anglo-American realm where churches are financed by donations of parish members, some countries on the European continent introduced church taxes in the previous century which are uniform within certain administrative districts, specific to the type of church, and mandatory for all church members. A particularly striking example of this is the case of Switzerland, where the administrative level at which taxes of Christian churches are set at the level of the parish through voting by the parish members. In this paper, we argue that church taxes which are set in this way depend on factors such as parish size and other fundamentals and, beyond shifters, on yardstick competition both among parishes of the same congregation as well as parishes of other Christian congregations in a certain neighborhood.

 [Lassmann-Crissing the Crosses-489.pdf](#)

On the timing of tax and investment in fiscal competition models**Jean Hindriks¹, Yukihiko Nishimura²**¹CORE, Universite catholique de Louvain, Belgium; ²Osaka University, Japan

We study a model in which asymmetric regions compete for capital with both public investments and taxes. Public investments are chosen in the first stage, and then source income taxes are set in the second stage. Public investments increase the productivity of capital and they also serve to stake out a positive advantage in the tax competition stage. In standard theories of tax competition, investments and taxes were assumed to be chosen simultaneously. Comparing our approach to earlier theory, we show that regions prefer to choose investment before taxes. We also show that sequential choice of taxes is preferable to simultaneous choice of taxes, and that modulo sufficient asymmetry among regions, the simultaneous choice of investment is preferable to the sequential choice of investments. Our theoretical prediction is that both taxes and public investments are distorted downwards in equilibrium.

 [Hindriks-On the timing of tax and investment in fiscal competition models-162.pdf](#)

Function Follows Form**Kristof Dascher**

Regensburg University, Germany

Urban policy visibly molds city shape. This paper's interest is in how city shape (less visibly) molds urban policy. The paper finds: A sufficiently skewed city will look after its center. That is, the more skewed a city's shape towards the city periphery, the more likely an urban majority against any policy that could take away from the city center. This, when broadly interpreted, complements Sullivan's (1896) "form follows function" view prominent in architectural theory. Function (building uses) also follows form (building contours). Ultimately combining both views may help explain further how, and when, cities sprawl.

 [Dascher-Function Follows Form-303.pdf](#)

Date: Saturday, 22/Aug/2015

8:30am - 10:30am
Room 5052

Budget Balance Regulation And Fiscal Adjustments

D

Investment and maintenance: Easy targets when governments cut budgets?**Lars-Erik Borge¹, Arnt Ove Hopland²**¹Norwegian University of Science and Technology, Norway; ²Norwegian School of Economics

The purpose of the paper is to empirically investigate the determinants of maintenance spending and investment in purpose buildings in Norwegian local governments. Whereas investments have been extensively studied in the public finance literature, maintenance has not been thoroughly studied, owing to data limitations. In the popular debate there is a concern that low levels of maintenance spending leads to poor building conditions, and in the long run also to excessive costs by reducing the lifetime of the buildings. The results show that fiscal variables are important determinants for both expenditures. However, whereas political fragmentation is associated with low levels of maintenance, it does not seem to affect investment.

 [Borge-Investment and maintenance-452.pdf](#)

Does Fiscal Oversight Matter?

Sebastian Georg Kessing, Desiree Isabelle Christofzik

University of Siegen, Germany

A gradually introduced reform of local government accounting made it temporarily likely for municipalities in the German state of North Rhine-Westphalia to avoid the effective control of their budget by the authorities in charge with overseeing local government budgets and enforcing the existing fiscal rules. Using this arguably exogenous withdrawal of effective

fiscal oversight we identify the effects of fiscal restraints and their enforcement on fiscal outcomes. We find that the withdrawal of oversight has a significant and sizeable effect on per capita debt of local governments that were previously constrained by fiscal oversight. Fiscal restraints are important, and oversight and enforcement are key issues for their success.

 [Kessing-Does Fiscal Oversight Matter-426.pdf](#)

Balanced budget regulations and local government production: More for less?

Arnt O. Hopland¹, Ole Henning Nyhus²

¹Norwegian School of Economics; ²Norwegian University of Science and Technology

Balanced budget regulations (BBRs) are widely used by central governments to keep the spending in local governments under control. In Norway, local governments with persistent deficits over a period of three years or more are recorded in the Register for State Review and Approval of Financial Obligations (Robek). The consequence of being registered in Robek is that the budget and resolutions for raising new loans must be approved by the county governor. The local governments listed in Robek must therefore tighten their budgetary policy in order to be removed from the register. We apply different measures on service and welfare production and efficiency in Norwegian local governments to studying if production and efficiency is affected by the BBR. We find that the BBR has a positive impact on efficiency. However, production seems to be unaffected. We also evaluate production and efficiency in different service sectors.

 [Hopland-Balanced budget regulations and local government production-438.pdf](#)

Structural Reform or Fiscal Consolidation: Is There a Trade-off?

Rana Sajedi

European University Institute, Italy

Given the weak economic performance of many European countries since the recent crisis, there is an increasing need for structural reforms aimed at promoting long run economic growth. In this context, there is a growing discussion about the interaction between structural reforms and fiscal policy. Reforms entail direct and indirect spending needs, and so are typically thought to go against the fiscal consolidation motive. This paper looks at whether there is a trade-off between carrying out structural reforms and fiscal consolidation in the long run, in particular by considering how reforms affect tax revenues. The aim is to quantitatively explore the extent to which reforms can be self-financing, in order to understand the long run impact of reforms on public debt. Preliminary results show that increasing the level of competition in product markets significantly increases tax revenues in the long run, whilst labour market reforms have milder effects.

 [Sajedi-Structural Reform or Fiscal Consolidation-444.pdf](#)

8:30am - 10:30am
Ed Burke Theatre

Corporate Taxation

D

Tax Rates and Corporate Decision Making

John Graham¹, Michelle Hanlon², Terry Shevlin³, Nemit Shroff²

¹Duke University; ²Massachusetts Institute of Technology, United States of America; ³University of California, Irvine

We provide evidence consistent with many firms exhibiting behavioral biases (heuristics, salience) when incorporating taxes into their decision processes. For example, we find that many firms employ the more salient average tax rate (i.e., the GAAP effective tax rate) to evaluate incremental decisions rather than the more theoretically correct marginal tax rate. We estimate that behavioral biases that influence firms to use the average tax rate for decision-making lead to deadweight losses that average \$10 million for poor capital structure decisions and \$25 million for suboptimal acquisitions, and also reduce the responsiveness of corporate investment to growth opportunities.

 [Graham-Tax Rates and Corporate Decision Making-527.pdf](#)

How Do Corporate Tax Bases Change When Corporate Tax Rates Change? With Implications for the Tax Rate Elasticity of Corporate Tax Revenues

Joel B. Slemrod¹, Kawano Laura²

¹University of Michigan, United States of America; ²U.S. Department of the Treasury, Office of Tax Analysis

We construct a new database of changes to multiple aspects of corporate tax bases for OECD countries between 1980 and 2004. We use our data to systematically document the tendency of countries to implement policies that both lower the corporate tax rate and broaden the corporate tax base. This correlation informs our Interpretation of previous estimates of the relationship between corporate tax rates and corporate tax revenues, which typically do not include comprehensive measures of the corporate tax base definition. We then re-examine the relationship between corporate tax rates and corporate tax revenues when controlling for our new tax base measures. We find that accounting for unobserved heterogeneity and changes to the corporate tax base attenuates the relationship between corporate tax rates and corporate tax revenues.

 [Slemrod-How Do Corporate Tax Bases Change When Corporate Tax Rates Change With Implications-559.pdf](#)

Customer-Supplier Relationships and Corporate Tax Avoidance

Lin Cen¹, Edward L. Maydew², Liandong Zhang³, Luo Zuo⁴

¹University of Toronto; ²University of North Carolina; ³City University of Hong Kong; ⁴Cornell University

We find that close customer-supplier relationships facilitate tax avoidance by both principal customers and their dependent suppliers. We investigate two mechanisms by which firms in these relationships avoid taxes. First, we find evidence that principal customers engage in a tax strategy involving centralized procurement by tax haven subsidiaries. Second, we find that close customer-supplier relationships promote the diffusion of tax avoidance knowledge from principal customers, who tend to be relatively large and sophisticated, to their dependent suppliers, who tend to be smaller and less sophisticated. Our study provides evidence of the importance of tax avoidance as a source of gains from these relationships.

 [Cen-Customer-Supplier Relationships and Corporate Tax Avoidance-522.pdf](#)

The Effect of Financial Constraints on the Tax-Motivated Income Shifting of U.S. Multinationals

Kevin Markle¹, Scott Dyreng²

¹University of Iowa, United States of America; ²Duke University

When a U.S. multinational corporation shifts income from the U.S. to foreign jurisdictions, it incurs costs and reaps benefits. The benefits may be reduced if the shifted income must be returned to the U.S. as a dividend in the short term and face the same U.S. tax it would have if the income had not been shifted. Firms, then, have incentive to defer repatriation of earnings and to fund domestic cash needs with external financing. The cost of external financing, however, is increasing in financial constraints, leading to the prediction that constrained firms will be unable to defer repatriation and, therefore, will reap no benefits from shifting. Consistent with this prediction, we find that financially constrained firms shift less income from the U.S. to foreign countries than their unconstrained peers. We estimate that financially constrained firms shifted out 20% less of pre-shifted income than did unconstrained firms.

 [Markle-The Effect of Financial Constraints on the Tax-Motivated Income Shifting of US Multinationals-555.pdf](#)

8:30am - 10:30am
Room 4050A

Elections, Representation, and Public Policy

D

Voting for direct democracy Evidence from a unique popular initiative in Bavaria

Felix Arnold¹, Ronny Freier¹, Magdalena Pallauf², David Stadelmann²

¹DIW Berlin, Germany; ²Bayreuth University

We analyze a constitutional change in the German State of Bavaria where citizens, not politicians, granted themselves more say in politics at the local level through a constitutional initiative at the state level. This institutional setting allows us to focus on revealed preferences for direct democracy and to identify factors which explain this preference. Empirical results suggests support for direct democracy is rather related to dissatisfaction with representative democracy in general than with an elected governing party.

 [Arnold-Voting for direct democracy Evidence from a unique popular initiative-327.pdf](#)

No Place like Home: Representation Influence, and Community Size

Ali Sina Önder², Marco Portmann¹, David Stadelmann²

¹University of Fribourg; ²University of Bayreuth

Using a unique dataset of outcomes of parliamentary voting and national referenda on legislative proposals in Switzerland between 2008 and 2012, we show that member of Parliaments (MPs) match preferences of voters living in the same community as where they reside better than they match the rest of their constituency on average. This finding is robust to alternative specifications. We discuss possible explanations for this empirical finding and put forward an opinion leadership model where an MP's influence diffuses through social networks. Community-based homophily in social networks drives a wedge between how closely an MP matches the preferences of her residence community and neighbor communities. We call this wedge the resident MP bias. We show that the observed relationship between the community size and the resident MP bias can solely be driven by the degree of the community-based homophily.

 [Önder-No Place like Home-259.pdf](#)

Electoral effects on the composition of public spending and revenue: evidence from a large panel of countries

Atsuyoshi Morozumi¹, Francisco Veiga², Linda Gonçalves Veiga²

¹University of Nottingham, UK; ²University of Minho, Portugal

This paper examines the effects of elections on central governments' fiscal policy conducts. We construct a unique database of disaggregated spending and revenue series at the central government level, for a panel of up to 107 countries over the 1975-2010 period. Using this data, we show that under some specific political environments, incumbents generate political budget cycles, predominantly by increasing current, rather than capital, spending and reducing taxes, most often income taxes. However, when democracies are matured, in election years, central governments reallocate their expenditure and revenue components, without changing their total levels. Specifically, they reallocate spending from capital spending to grants to other government units, while reducing income taxes and increasing consumption taxes instead.

 [Morozumi-Electoral effects on the composition of public spending and revenue-119.pdf](#)

Ready to Reform: How Popular Initiatives Can Be Successful

Monika Büttler, Katharina Hofer, Christian Marti

University of St. Gallen, Switzerland

We study popular initiatives as an important element of direct democracy: Petitioners collect signatures to qualify the initiative and elicit information about the initiative's winning probability. Politicians decide about a political compromise - a counter proposal - after which

petitioners have the option to withdraw the initiative before the vote. In equilibrium, politicians infer the initiative's popularity from the number of signatures collected. Counter proposals are more likely if the initiative is perceived as a threat to the status quo.

The empirical analysis uses data on all Swiss constitutional initiatives at federal level since 1891. Using major institutional changes, we find supporting evidence for the model mechanisms. Reforms are most likely once a far-reaching counter proposal is issued such that the initiative is withdrawn. We also find a significant effect of collecting more signatures than required on the probability of provoking a compromise.

 [Büttler-Ready to Reform-134.pdf](#)

8:30am - 10:30am
Room 5033

Fiscal Federalism II

D

Public provision and local income tax competition

Florian Kuhlmei, Beat Hintermann

University Basel, Switzerland

We extend the literature on local income tax competition by allowing for inter-jurisdictional spillovers and imperfect rivalry in consumption, which may be important in the context of decentralized environmental regulation or investment in large public facilities. Spillovers add an inefficiency in the form of underprovision of the publicly provided good due to free-riding. At the same time, they reduce the intensity of tax competition. This is due to a redistribution pathway absent in models based on purely local public provision: Richer jurisdictions effectively subsidize poorer jurisdictions in the form of transboundary spillovers. We carry out a welfare analysis and find that the loss from decentralization is small for intermediate levels of spillovers and rivalry, but increases if spillovers are small or large.

 [Kuhlmei-Public provision and local income tax competition-298.pdf](#)

Determinants of Portuguese local governments' indebtedness

Linda Gonçalves Veiga, Francisco José Veiga

Universidade do Minho and NIPE, Portugal

Using an extensive dataset covering all Portuguese local governments (308), this paper analyzes the determinants of municipal deficits and debt. The results clearly indicate the existence of a political budget cycle, but there is no evidence that fiscal policy is used strategically to condition the decisions of subsequent governments. Furthermore, local governments that enjoy larger support in the town-hall and for which there is party similarity between the mayor and the prime-minister have larger budget balances. Finally, larger shares of investment and of interest payments in expenditures, and higher unemployment rates increase indebtedness, while higher private sector wages, more construction licenses, and greater percentages of the municipal area assigned to urban use are associated with lower indebtedness.

 [Veiga-Determinants of Portuguese local governments' indebtedness-118.pdf](#)

A test of the Law of 1/n for the supra-local governments of Belgium: do more politicians mean more public spending?

Geert Jennes

KULeuven, Belgium

We investigate if a more populous or fragmented executive or legislative increases public spending and/or the budget deficit, an effect known as the Law of 1/n. We test this relationship for the supra-local governments of Belgium. We find few indications that more politicians or more fragmented governments –either in terms of a larger or more fragmented executive or in terms of a larger or more fragmented legislative- lead to an increase in overall public expenditures or in the budget deficit. The exception is that we find a

significantly positive effect of a change in the size of the executive, more in particular of the number of ministers composing the governing coalition, on the budget deficit. Our identification is based on an IV regression approach, instrumenting the number of ministers overall with their resp. number in governments in charge of a decentralisation round.

[Jennes-A test of the Law of 1n for the supra-local governments of Belgium-315.pdf](#)

The effect of Fscal disparities on yardstick competition and municipal cooperation

Giuseppe Di Liddo¹, Michele Giuseppe Giuranno²

¹Univeristà di Bari; ²Università del Salento, Italy

This paper addresses the issue of inter-jurisdictional cooperation when incumbents are pure rent seekers. Our analysis considers municipalities that differ in their spending needs, which leads to asymmetric yardstick competition. We study the impact of the yardstick bias on both the quality of local policies and the rent seeking equilibria under and without municipal cooperation.

[Di Liddo-The effect of Fscal disparities on yardstick competition and municipal cooperation-355.pdf](#)

8:30am - 10:30am
Ui Chadhain Theatre

Fiscal Policy and Financial Conditions

D

Fiscal Devaluation: Efficiency and Equity

Matthias Burgert, Werner Roeger

European Commission, Belgium

Whilst it is generally accepted that a shift of taxation from labour to consumption has positive effects on employment and is growth enhancing, such a policy reform is often not pursued due to equity considerations. In this paper we highlight that a fiscal devaluation is a means to shift taxes from labour to all sources of income including income from financial and non-financial wealth. We simulate tax shifts and show that a tax shift redistributes real consumption income from capital owners to wage earners. Concerning the ratio of net wage income to income from financial and non-financial assets specifically, we find that the tax shift is regressive in the short run, but progressive in the long run if it is enacted by reducing employers' social security contributions, and is progressive already in the short run if it is enacted by reducing personal income taxes.

[Burgert-Fiscal Devaluation-124.pdf](#)

Publi Debt and Changing Ination Targets

Stephane Moyen

Deutsche Bundesbank, Germany

What are the effects of a higher central bank inflation target on the burden of real public debt? Several recent proposals have suggested that even a moderate increase in the inflation target can have a pronounced effect on real public debt. We consider this question in a New Keynesian model with a maturity structure of public debt and an imperfectly observed ination target. We find that moderate changes in the inflation target only have significant effects on real public debt if they are essentially permanent. Moreover, the additional benefits of not communicating a change in the inflation target are minor.

[Moyen-Publi Debt and Changing Ination Targets-351.pdf](#)

Do Tax Changes Affect Credit Markets and Financial Frictions? Evidence from Credit Spreads

Beatrice Kraus, Christoph Winter

University of Zurich, Switzerland

In this paper, we empirically document a link between tax changes and financial market conditions. Using the Romer and Romer (2010) narrative record of exogenous federal tax liability changes for the US, we show that an increase in taxes leads to higher risk premia for corporate bonds issued by financial and non-financial firms. Consistent with recent theories of intermediary asset pricing, we demonstrate that risk premia are driven by intermediaries' balance sheet conditions, which - according to our results - are in turn affected by tax changes. Two tax acts are particularly relevant for the transmission of taxes to financial market conditions, namely the Tax Reform Act of 1986 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. Interestingly, none of these two tax acts specifically targeted the financial sector. Therefore, an important implication of our results is that any tax change can potentially spill over to financial market conditions.

[Kraus-Do Tax Changes Affect Credit Markets and Financial Frictions Evidence-235.pdf](#)

Government Spending and Financing Constraints: Firm-Level Evidence from Federal Procurement

Shafik Hebous¹, Tom Zimmermann²

¹Goethe University Frankfurt, Germany; ²Harvard University

We study the effects of federal procurement contracts on investment. We compile a distinctive dataset from various sources combining federal procurement contracts and firm-level information. Results suggest that as a result of a 1\$ of federal spending, investment increases by 4 to 6 cent. The evidence indicates that particularly firms that face financing constraints do react to new government purchases. Additionally, the findings indicate that government purchases ease firms' external borrowing.

[Hebous-Government Spending and Financing Constraints-330.pdf](#)

8:30am - 10:30am
Beckett Theatre 2

Fiscal Policy II

D

Shrinking Middle Class and the Role of Taxation and Transfer Payment: Evidence from Korean Household Income and Expenditure Survey

Seng Eun Choi

Korea Institute of Public Finance, Korea, Republic of (South Korea)

The paper measured the size of Korean middle class with OECD definition of middle class, using Household Income and Expenditure Survey (HIES) for the period of 1990 to 2012. The paper analyzes middle class by income, consumption expenditure, asset and liabilities, household characteristics and demographical characteristics. The paper estimates the effect of tax and transfer payment on the size of middle class, showing that tax and transfer payment has been effective on increasing the size of middle class. Taxes increase the size of middle class by 0.8%p on average, while transfer payment increases the size of middle class by 1.6%p on average. On average, the effect of transfer payment on the size of middle class is 2 times greater than that of taxes. The analysis in this paper suggests that taxes may not be so effective on increasing the size of middle class, as taxes have recently increased the size of lower-income group.

[Choi-Shrinking Middle Class and the Role of Taxation and Transfer Payment-309.pdf](#)

Towards a Multidimensional Poverty Index for Germany

Nicolai Suppa

TU Dortmund, Germany

This paper compiles a multidimensional poverty index for Germany. Drawing on the capability approach as conceptual framework, I apply the Alkire-Foster method using German panel data. I suggest new operationalizations for two dimensions: social participation and practical reason, the latter drawing on recent findings in experimental economics. The results are consistent with earlier findings, but also reveal several new insights. Specifically, numerous decompositions of the poverty index prove helpful in better tracking and understanding developments. Moreover, I find poor individuals to be adversely affected by general trends in deprivation indicators. Comparing multidimensional and income-based methods, I find only a modest overlap of people considered as poor by both approaches. Moreover, I address the role of income as a dimension in multidimensional poverty indices.

 Suppa-Towards a Multidimensional Poverty Index for Germany-212.pdf

Do Fiscal Rules Constrain Fiscal Policy? A Meta-Regression-Analysis

Friedrich Heinemann, Marc-Daniel Moessinger, Mustafa Yeter

ZEW Mannheim

Numerical fiscal rules are implemented to counterbalance the deficit bias in budgetary policy. Over the recent years, an increasing number of studies try to test the actual effectiveness of fiscal rules. This meta-analysis condenses the existing evidence from different regional and federal contexts. It explores the study characteristics which are associated with different findings. Based on a preliminary analysis and a still incomplete sample of primary studies, the results point to a consensus that fiscal rules indeed constrain fiscal policies. This result also appears to hold in light of the criticism that rules are the endogenous reflection of fiscal preferences: even studies with a comprehensive control for fiscal preferences do not lead to systematically weaker levels of statistical significance.

 Heinemann-Do Fiscal Rules Constrain Fiscal Policy A Meta-Regression-Analysis-180.pdf

Political Fragmentation and Fiscal Policy

Enda Patrick Hargaden

University of Michigan, United States of America

This paper presents a model of government where an n-member coalition chooses revenue and expenditure policies. I derive the response of tax policy to a change in the number of coalition partners. The model predicts that an increase in the number of parties leads to lower taxes, lower expenditure, and lower social security transfers. These results are counter to the conventional wisdom that countries with more fragmented governments have larger public sectors. I test the model on a large panel of developed countries, and all three of the model's predictions are supported. My results have coefficients significantly different from, and of opposing signs to, the conventional wisdom. I estimate that moving from a two- to three-party legislature lowers tax revenue by 6.7%, expenditure by 9.5%, and transfers by 5.4%. These results hold for both legislative and executive fragmentation, and are robust to ideological controls and electoral cycle effects.

 Hargaden-Political Fragmentation and Fiscal Policy-111.pdf

8:30am - 10:30am

Beckett Theatre 1

Inequality, Social Insurance and Distributional issues

D

Experience Rating in Disability Insurance

Tommi Kyvrä, Tuuli Ylinen

VATT, Finland

We study whether the experience rating of employers' disability insurance premiums affects the inflow to disability benefits in Finland. To identify the causal effect of experience rating, we exploit "kinks" in the rule that specifies the degree of experience rating as a function of firm size. Using panel data on all firms and workers in the private sector, we estimate the effects of experience rating on the inflow to sickness and disability benefits. We find no evidence that firms would react to the incentive structure of disability insurance premiums.

 Kyvrä-Experience Rating in Disability Insurance-537.pdf

Quality of Upper Secondary Schools in Finland - Persistent and Non-Persistent Differences in Value Added

Mika Kortelainen¹, Heikki Pursiainen¹, Jenni Pääkkönen²

¹vatt institute for economic research, Finland; ²university of helsinki

We analyze differences in school quality using a comprehensive panel data set covering all upper secondary school graduates in Finland during the years 2002-2013. School quality is defined as the effect of the school on matriculation exam results.

Using methods similar to Chetty et al. (2013) we are able to measure both cross-sectional differences in school quality and the persistence of these differences over time. We use comprehensive school grades to control for pupil quality as well as comprehensive school fixed effects.

There are significant differences in school quality even after controlling for student intake. This result must, however, be qualified. Large differences are observed only between the very top and bottom institutions. Most schools are much closer to each other in quality.

Also, while there is persistence over time in school quality, this is far from complete. This means that any school rankings are highly unstable over time.

 Kortelainen-Quality of Upper Secondary Schools in Finland-541.pdf

A Kink that Makes You Sick: the Effect of Sick Pay on Absence in a Social Insurance System

Petri Böckerman^{1,2}, Ohto Kanninen¹, Ilpo Suoniemi¹

¹Labour Institute for Economic Research, Finland; ²Turku School of Economics

We examine the effect of the replacement rate of a social insurance system on sickness absence by exploiting a regression kink design. The elasticity of absence with respect to the benefit level, in addition to risk preferences, is a critical parameter in defining the optimal sickness insurance scheme. Using a large administrative dataset, we find a robust behavioral response. The statistically significant point estimate of the elasticity of the duration of sickness absence with respect to the replacement rate in a social insurance system is on the order of 1. Given our estimate, we characterize the optimal benefit level.

 Böckerman-A Kink that Makes You Sick-120.pdf

Inequality and Defined Benefit Pensions when Life Expectancy is Heterogeneous

Daniel Kemptner¹, Peter Haan^{1,2}, Victoria Prowse³

¹DIW Berlin, Germany; ²FU Berlin, Germany; ³Cornell University, USA

In this paper, we analyze how income taxes, transfer programs and the pension system affect inequality in lifetime income. Importantly, we consider pre-retirement and post-retirement income and thereby we extend the previous literature on lifetime inequality, which has only considered income received before retirement. We use a dynamic structural life-cycle model to derive trajectories of earnings and net income over the whole life-cycle. Based on these life-cycle profiles, we investigate the drivers of inequality in lifetime gross earnings and we study the impact of taxes, transfer and pensions on inequality in lifetime net income. We also use the estimated model to analyze the how pension reforms affect inequality in lifetime income.

 Kemptner-Inequality and Defined Benefit Pensions when Life Expectancy is Heterogeneous-495.pdf

8:30am - 10:30am

Boardroom 2026

Inter-governmental Grants and Revenue Assignment

D

From persons to places: interregional redistribution and personal/territorial criteria in the allocation of public expenditure

Caterina Ferrario¹, Alberto Zanardi²

¹University of Ferrara, Italy; ²University of Bologna, Italy

Public expenditure programmes may allocate resources primarily on the basis of socio-demographic features ("personal" programmes) or of topo-geographic criteria ("territorial" programmes). In addition, whichever programmes may redistribute across territories. These redistributive effects may be explicitly pursued or may be a by-product of policies pursuing other objectives. This paper aims to develop a better understanding of how personal and territorial criteria driving the allocation of public expenditure contribute to interregional redistribution. First, we estimate a distribution of public expenditure across regions as if its allocation were driven only by personal

factors. This approach is then applied to public expenditure in Italy 1999-2010. Results show that interregional redistribution slightly declines when we shift from actual distribution of public expenditure to that one where the role of personal criteria is considered in isolation. However, even in the latter case public programmes still produce a significant level of territorial redistribution.

 [Ferrario-From persons to places-410.pdf](#)

Has been the regional policy mitigated the Capital zone concentration of population? A panel data analysis of the effectiveness of the non-market factors in Korea

Hyun-A Kim

Korea Institute of Public Finance, Korea, Republic of (South Korea)

Has been the regional policy mitigated the Capital zone concentration of the population? This paper empirically attempts to examine the regional policy effects by using the capital investment of the central and local governments in Korea. The empirical results confirm the conjectures that regional capital investment by the central and subnational government may play a critical role to reduce the provincial migration in last two decades. Main contributions are two folds. One thing is that the paper focuses on the migration pattern from the non-Capital area to the Capital area. The net migration effect may not be isolated with movement from market forces effect such as employment, marriage and education, etc. The paper tries to control these market forces effect to show the net migration effect. The other thing is to show the linkage between the capital investment by the government sectors and the reduction of the migration rates.

 [Kim-Has been the regional policy mitigated the Capital zone concentration-225.pdf](#)

Toward a More General Model of Revenue Assignments

Jorge Martinez-Vazquez¹, Cristian F Sepulveda²

¹Georgia State University, United States of America; ²Tulane University, United States of America

Despite the extensive international experience with the assignments of revenue sources to different levels of government, the public finance literature still lacks a general theory of revenue assignments. Two approaches have been separately developed in the literature to explain and guide the practice of revenue assignments. The first, based on Musgrave and Oates' tradition, emphasizes the accountability of government authorities. The second is based on optimal taxation principles and focuses on the mix of revenue instruments. This paper develops a model of revenue assignments that borrows insights from the two approaches. To arrive at an optimal revenue assignment we argue that discretionary subnational expenditures need to be financed exclusively with own revenue collections, and assume that the central government uses equalization transfers to finance only centrally determined standards for all jurisdictions. In this context heterogeneity of preferences naturally leads to differences in the optimal level of tax effort across subnational governments.

 [Martinez-Vazquez-Toward a More General Model of Revenue Assignments-376.pdf](#)

Citizens' Responsiveness to Policies and Social Capital: Theory and Some Evidence from Italy

Emanuele Bracco¹, Ben Lockwood², Francesco Porcelli^{2,3}, Michela Redoano²

¹University of Lancaster, United Kingdom; ²University of Warwick, United Kingdom; ³SOSE, Italy

The purpose of this paper is to develop a systematic study of the determinants of intergovernmental grants in a political agency setting. In this setting, due to imperfect monitoring, both local and regional performance (public good output or taxes) can provide informative signals about either the regional or local incumbent (or indeed the challenger).

We focus on the role of social capital (or ability to monitoring performances) affect economic and political outcomes.

We test our theoretical predictions using a dataset on Italian local elections and public finance.

 [Bracco-Citizens Responsiveness to Policies and Social Capital-352.pdf](#)

8:30am - 10:30am
Swift Theatre

Optimal Tax Design

D

Jointly Optimal Income Taxes for Different Types of Income

Johannes Hermle², Andreas Peichl^{1,3}

¹University of Mannheim, Germany; ²University of Bonn, Germany; ³ZEW

In this paper we develop and estimate a model of jointly optimal income taxes for different types of income, such as wage, capital or self-employment income taking into account fiscal externalities between tax bases. In the theoretical part, we derive the optimality conditions for income type dependent non-linear tax schedules and provide a closed-form solution for the case of a linear tax. In the empirical part, we calculate social marginal welfare weights implicit in the German personal income tax schedule accounting for differences in the responsiveness across income types. We show that average welfare weights differ significantly between income sources. Finally, we use the obtained values to simulate optimal linear taxes for the case of Germany. We find that optimal taxes for capital income are sizably smaller than for wage income or income from self-employment.

 [Hermle-Jointly Optimal Income Taxes for Different Types of Income-382.pdf](#)

How should the government finance the redistribution policy?

Masaya Yasuoka¹, Minoru Hayashida²

¹Kwansei Gakuin University, Japan; ²The University of Kitakyushu

In OECD countries, redistribution policies are provided for young and old generations. Taxation of many kinds to finance the redistribution policy exists, just as redistribution policies of many kinds exist. Our paper sets a model with heterogeneous labor productivity for households and sectors of two types: a skilled sector and an unskilled sector. The model elucidates how the government should collect tax revenue for redistribution policies. Results show that the labor income tax can always shrink income inequality. However, the consumption tax increases wage inequality between skilled and unskilled sector. It is not always sufficient to shrink income inequality after redistribution, even if skilled workers increase. A corporate tax shrinks income inequality if intertemporal consumption is substitutive. Results show that the redistribution policy effects depend on how the government collects tax revenue.

 [Yasuoka-How should the government finance the redistribution policy-399.pdf](#)

Optimal Inefficient Production

Bas Jacobs

Erasmus School of Economics

This paper develops a model of optimal non-linear income and commodity taxation to analyze the desirability of aggregate production efficiency. In contrast to Diamond and Mirrlees (1971) individuals are assumed to operate individual-specific production technologies. It is demonstrated that the production efficiency theorem breaks down. Outputs of commodities should be taxed at higher (lower) rates if high- (low-)ability agents have a comparative advantage in producing them. In addition, outputs of commodities should be taxed relatively less when labor demand is more elastic. Aggregate production efficiency is obtained only when individual production functions are of the Gorman polar form. The breakdown of the Diamond-Mirrlees production efficiency theorem has potentially important policy implications.

 [Jacobs-Optimal Inefficient Production-463.pdf](#)

The Effect of Capital Taxation on Households' Portfolio Composition and Intertemporal Choice

Floris Tobias Zoutman

NHH Norwegian School of Economics, Norway

This paper estimates the effect of capital taxation on households' portfolio composition and savings using the Dutch 2001 capital income tax reform. The reform created quasi-experimental variation in households' after-tax return on financial assets and owner-occupied housing. I use unique administrative household panel data with information on capital income, wealth and portfolio shares to

exploit this variation. The key identifying assumption is that variation in a household's before-tax returns is exogenous to the reform-induced variation in its tax rate, after controlling for income and wealth. Results indicate that when the after-tax return on financial assets relative to the return on owner-occupied housing increases, the share of wealth invested in financial assets increases significantly. In addition, I find overall wealth increases when the after-tax return on wealth increases. Responses on both margins are economically modest, although high-income and single households are somewhat more responsive.

[Zoutman-The Effect of Capital Taxation on Households Portfolio Composition and Intertemporal Choice-138.pdf](#)

8:30am - 10:30am
Room 4047

Pensions, Public Sector and Political Power

D

The impact of the financial crisis on saving decisions: evidence from Italian pensions funds

Francesco Porcelli^{1,4}, Mauro Mare^{2,3}, Antonello Motroni³, Luca Di Gialleonardo³

¹University of Warwick, United Kingdom; ²Università della Tuscia, Italy; ³Mefop, Italy; ⁴SOSE SpA

This paper provides an empirical analysis of the impact of the recent financial crisis on households' saving decisions in private pension schemes. We base our study on an original dataset made up of three sample surveys conducted in 2006, 2008 (before the bankruptcy of Lehman Brothers) and 2012 (in the middle of the downturn) by MEFOP SpA, a company based in Rome that, since 1999, provides consultancy services for the majority of Italian pension funds. Preliminary results shows that, although the trust in financial institutions (public and private) has been severely affected by the crisis, the probability to invest in private pension schemes has been barely touched and in some cases it is also possible to register an increase.

[Porcelli-The impact of the financial crisis on saving decisions-405.pdf](#)

What are the health effects of delaying retirement?

Johannes Hagen

Uppsala University, Sweden

This paper estimates the causal effect of delaying retirement on a wide range of health outcomes using Swedish administrative data on cause-specific mortality, hospitalizations and drug prescriptions. Exogenous variation in retirement timing comes from a reform which raised the normal retirement age (NRA) from 63 to 65 for Swedish local government employees. The reform caused a remarkable shift in the retirement distribution of the affected workers, increasing the actual retirement age by more than 6.5 months. Instrumental variables estimation show that delaying retirement significantly decreases the probability of being prescribed antidepressants. There is also some evidence of a negative effect on hospitalizations and drug prescriptions related to diabetes. These effects are likely to operate through lifestyle patterns induced by work including preserved social interactions and physical activity.

[Hagen-What are the health effects of delaying retirement-427.pdf](#)

A Model of Market and Political Power Interactions for Southern Europe

Vangelis Vassilatos, Tryphon Kollintzas, Papageorgiou Dimitris

Athens University of Economics and Business, Greece

In recent years the growth pattern of most Southern European countries has been disturbed, as those countries are suffering from economic crises that go beyond the usual business cycle. In this paper, we develop a dynamic general equilibrium model of market and political power interactions that explains this growth reversal. Moreover, the model is consistent with several stylized facts of those countries, where wages in the public sector relative to the private sector are high and these wage differentials correlate negatively with public sector employment over total employment, total factor productivity, and output growth. The model is a synthesis of the insiders-outsiders labor market structure and the concept of an elite government.

[Vassilatos-A Model of Market and Political Power Interactions-275.pdf](#)

Public Sector Efficiency revisited - The quality of public policy during the crisis and beyond

Beatrice Scheubel

European Central Bank, Germany

There seems to be a general agreement that public policy should be growth-friendly, achieve a stabilisation of debt dynamics and should not raise inequality. However, only few frameworks help to identify the optimal mix of revenue and expenditure measures and structural policies that achieve the optimal balance. This paper tries to address this question with a framework of public production efficiency. This approach takes country-specific weights for different public sector goals or the size of the fiscal consolidation need as given, while showing whether these goals can be reached more efficiently. The results of the efficiency analysis indicate that public sector efficiency has increased during the early years of the crisis. However, a more efficient public sector set-up before the crisis could have contributed to achieving a given adjustment of the cyclically adjusted primary balance more efficiently.

[Scheubel-Public Sector Efficiency revisited-440.pdf](#)

8:30am - 10:30am
Room 4050B

Public Provision and the Cost of Public Services

D

Optimal Taxation and Public Provision for Poverty Minimization

Ravi Kanbur¹, Jukka Pirttilä², Matti Tuomala³, Tuuli Ylinen⁴

¹Cornell University; ²UNU-WIDER; ³University of Tampere; ⁴Aalto University

The existing literature on optimal taxation typically assumes there exists a capacity to implement complex tax schemes, which is not necessarily the case for many developing countries. We examine the determinants of optimal redistributive policies in the context of a developing country that can only implement linear tax policies due to administrative reasons. Further, the reduction of poverty is typically the expressed goal of such countries, and this feature is also taken into account in our model. We derive the optimality conditions for linear income taxation, commodity taxation, and public provision of private and public goods for the poverty minimization case, and compare the results to those derived under a general welfarist objective function. We also study the implications of informality on optimal redistributive policies for such countries, and comment on the potential for minimum wage regulation. The exercise reveals nontrivial differences in optimal tax rules under the different assumptions.

[Kanbur-Optimal Taxation and Public Provision for Poverty Minimization-234.pdf](#)

The cost inefficiency of integrating administrative functions following municipal amalgamation in Japan

Katsuyoshi Nakazawa

Toyo University, Japan

Many countries have implemented municipality amalgamation in order to achieve economies of scale and scope. However, while municipality amalgamation raises population size, it simultaneously introduces organizational changes in the local government that might increase administrative inefficiency because of the difficulty in integrating administrative staff and procedures. Municipality amalgamation may also increase inefficiency by expanding organizational slack and raising monitoring costs. This paper investigates whether the cost inefficiency of amalgamated municipalities increases as the number of municipalities that participated in an amalgamation rises. The paper examines this hypothesis by using a stochastic frontier cost estimation. The estimation results presented herein show that increasing the number of municipalities that participated in an amalgamation exacerbates cost inefficiency in terms of total public expenditure and the general administration expenditure category. Moreover, cost efficiency does not improve over time in contrast to our expectations.

[Nakazawa-The cost inefficiency of integrating administrative functions following municipal amalgamation-252.pdf](#)

The Demand Function Approach for Local Public Services: Has Political Local Autonomy Improved Fiscal Autonomy in Korea?

Joongho Kook

Yokohama City University, Japan

After the beginning of local autonomy in 1995, Korea has increased intergovernmental transfers such as local allocation tax and national subsidies. The share of its own revenues such as local taxes, however, did not increase. There is a particular mechanism that the carry-over includes large amounts of grants as one item of non-tax revenue. Local governments can exert pressure on central government through the use of the part of carry-over for next-periods. Even though central government tries to let local governments increase the share of their own revenues ex ante, when the local governments resisted increasing their own revenue, central government bailed out local governments ex post. This mechanism has caused a soft budget constraints problem in Korea. In order to make clear this mechanism, the paper estimates the demand function for local public services specifying significant factors on the function.

 [Kook-The Demand Function Approach for Local Public Services-313.pdf](#)

Matching or Contesting for Grants?: Allocating Education Block Grant among Subnational Governments to Expand Local Effort

Gyun Cheol Gu

Korea Institute of Local Finance, Korea, Republic of (South Korea)

Following a political economy approach, this paper analyzes the outcomes of three different grant distribution systems. Analytically identifying the outcomes generated by each system, it compares and contrasts the quantitative results across the systems. The main finding is that matching and contesting systems have a similar large impact on total resources allocated to education, as well as how those resources are distributed across districts. It also shows that a contesting-for-grant system is chosen by majority vote in the National Assembly only if the central government aggressively encourages its subnational governments to expand their education spending by increasing the portion of education block grants to be distributed according to an incentive scheme.

 [Gu-Matching or Contesting for Grants-370.pdf](#)

8:30am - 10:30am

Room 5039

Tax Enforcement

D

Voluntary Disclosure of Evaded Taxes - Increasing Revenues, or Increasing Incentives to Evade?

Dominika Langenmayr

University of Munich, Germany

Many countries apply lower fines to tax evading individuals when they voluntarily disclose the tax evasion they committed. I model such voluntary disclosure mechanisms theoretically and show that while such mechanisms increase the incentive to evade taxes, they nevertheless increase tax revenues net of administrative costs. I confirm the importance of administrative costs in a survey of German competent local tax authorities. I then test the effects of voluntary disclosure on the tax evasion decision, using the introduction of the 2009 offshore voluntary disclosure program in the U.S. for identification. The analysis confirms that the introduction of voluntary disclosure increases tax evasion.

 [Langenmayr-Voluntary Disclosure of Evaded Taxes-189.pdf](#)

Shaming Tax Delinquents Theory and Evidence from a Field Experiment in the United States

Ricardo Perez-Truglia¹, Ugo Troiano²

¹Microsoft Research; ²University of Michigan, United States of America

We study shaming as a policy to improve tax debt collection. First, we show that when the tax agency focuses on private welfare and revenues, the optimal policy may involve a mix of financial and shaming penalties. Second, we present evidence from a field experiment with 34,344 tax delinquents who owed half a billion dollars in three U.S. states. We find that increasing the salience of financial and shaming penalties reduces tax delinquency. We also provide suggestive evidence that the effectiveness of these penalties depends on the garnishability of the debtor's income as in the model.

 [Perez-Truglia-Shaming Tax Delinquents Theory and Evidence from a Field Experiment-285.pdf](#)

The Optimal Deterrence of Tax Evasion: The Trade-off Between Information Reporting and Audits

Yulia Paramonova

University of Michigan, United States of America

Despite the widespread recognition of the effectiveness of information reporting to increase tax compliance, existing tax theory considers tax audits to be the main tool to prevent evasion. The paper extends tax theory by modeling information reporting as an additional enforcement instrument that allows acquiring information about taxpayers' income. The paper solves the problem of the IRS commissioner who, having limited resources, has to maximize tax revenue by allocating resources between audits and information reporting. I find that the value of information reporting, because of taxpayers' strategic behavior, depends on audit coverage as an inverse U-shaped function. As a result, the optimal level of information depends on the budget such that it first increases, but then decreases with the budget, while optimal audit coverage always increases with the budget. This implies that there is a budget at which it is no longer optimal to expand the information reporting system.

 [Paramonova-The Optimal Deterrence of Tax Evasion-461.pdf](#)

Tax Evasion and Penalty Structure

Keisuke Morita

Kanagawa University, Japan

Two penalty structures for tax evasion are provided in economic theory: Allingham-Sandmo type and Yitzhaki type. The former imposes a penalty according to the amount of concealed income. The latter imposes a penalty according to the taxes evaded. Although many countries adopt Yitzhaki type penalty structure, there is no guarantee that Yitzhaki type is superior to Allingham-Sandmo type on decreasing the amount of taxes evaded. This study investigates which penalty structure is more beneficial on decreasing the amount of taxes evaded. We show that the answer to that question depends on the configuration of the tax function. In particular, when the tax function is increasing and convex, the amount of taxes evaded is lower under the Allingham-Sandmo type penalty structure than under the Yitzhaki type penalty structure.

 [Morita-Tax Evasion and Penalty Structure-367.pdf](#)

8:30am - 10:30am

Room 5025

Topics in Optimal Taxation


D

Optimal Income Taxation when Skills and Behavioral Elasticities are Heterogeneous

Laurence Jacquet¹, Etienne Lehmann²

¹THEMA, University Cergy-Pontoise, France; ²CRED, University Pantheon-Assas Paris II, France

We solve a large class of multidimensional adverse selection problems with one observed action, to derive the nonlinear optimal income tax schedule when individuals differ along multiple unobserved characteristics. Based on a perturbation of the optimal allocation, our method allows individuals to have e.g. different skills and different taxable income elasticities. Our optimal tax formula generalizes the one with only one-dimensional source of heterogeneity and is numerically implementable. We find that, compared to the case where individuals differ only in skills, allowing them to also have heterogeneous taxable income elasticities leads to substantially different optimal tax schedules and in particular, different asymptotic tax rates.

 [Jacquet-Optimal Income Taxation when Skills and Behavioral Elasticities are Heterogeneous-153.pdf](#)

Optimal Taxation of a Platform in a Two-Sided Market

Mark J Tremblay

Michigan State University, United States of America

Within a platform marketplace in a two-sided market with network benefits, consumers purchase content for the platform from the seller side of the market. Consumers purchase apps, music, ebooks, and videos in the app store for their smartphones and console owners purchase video games to use on their console. The sub-market where consumers purchase content from sellers affects the consumer elasticity of demand for the platform and the prices the platform sets to consumers and sellers that join the platform. In many industries digital content is not taxed. We investigate the effects on the platform and on welfare of implementing a sales tax using a general model of a platform where consumers purchase content from sellers on the platform marketplace. Furthermore, we show that the optimal second best sales tax is in the form of a subsidy that offsets some of the content development costs for sellers.

[Tremblay-Optimal Taxation of a Platform in a Two-Sided Market-356.pdf](#)

Optimal Taxation of Investors and Workers

Arnaldur Solvi Kristjansson

University of Oslo, Norway

Abstract We examine optimal labour and capital income taxation when individuals can exert investment effort in order to increase the rate of return. We set up a two period model where individuals differ in investment ability and labour market productivity. In the absence of the possibility to exert investment effort, capital income should not be taxed if preferences are separable between leisure and consumption, based on the Atkinson-Stiglitz theorem. The Atkinson-Stiglitz theorem does not hold when individuals can exert investment effort. Our applications result that capital income should be taxed at the optimum even if preferences are separable between leisure and consumption.

[Kristjansson-Optimal Taxation of Investors and Workers-358.pdf](#)

11:00am - 1:00pm
Beckett Theatre 2

Charity and Public Goods

E

Dynamic Bunching Estimation and the Cost of a Regulatory Hurdle for Charities

Benjamin Marx

University of Illinois at Urbana-Champaign, United States of America

This paper presents a new dynamic research design to estimate income responses to policy thresholds and analyzes an income notch at which IRS reporting requirements for charitable organizations become more onerous. The dynamic version of bunching estimation offers numerous potential benefits, including more plausible identification of parameters governing repeated decisions, greater elucidation of heterogeneity, new evidence on whether avoidance involves foregone income or simply misreporting or retiming, and measurement of extensive-margin responses and long-run effects of bunching. In the setting of public charities I show that the now-standard approach to bunching analysis delivers a result that is wrong by an order of magnitude. The dynamic approach also provides evidence that the reporting requirement imposes an adjustment cost on new filers. Avoidance appears to include foregone income rather than just misreporting, with little evidence of retiming and strong evidence that facing a temporary regulatory threshold permanently reduces income.

[Marx-Dynamic Bunching Estimation and the Cost of a Regulatory Hurdle-467.pdf](#)

The Sensitivity of Giving to the Timing and Salience of Charitable Tax Credits

Ross Hickey¹, Bradley Minaker², A. Abigail Payne³

¹University of British Columbia Okanagan; ²McMaster University, Canada; ³McMaster University, Canada

Does the timing of making a donation and reporting it on a tax return matter? We study timing and salience effects from the Quebec provincial government response to the 2010 Haiti Earthquake which permitted donations to be reported on the 2009 tax return instead of the 2010 tax return (as reported by residents in the rest of Canada). This natural experiment allows for testing timing and salience effects on charitable giving in a country where all tax filers can benefit from donation tax credits. We find the policy increased giving on both extensive (increased givers) and intensive (increased giving) margins.

[Hickey-The Sensitivity of Giving to the Timing and Salience of Charitable Tax Credits-497.pdf](#)

MANDATORY MINIMUM CONTRIBUTIONS, HETEROGENEOUS ENDOWMENTS AND VOLUNTARY PUBLIC-GOOD PROVISION

Claudia Keser, Andreas Markstaedter, Martin Schmidt

Georg-August-Universität Göttingen, Germany

In a public-good experiment with heterogeneous endowments, we investigate if and how the contribution level as well as the previously observed "fair-share" rule of equal contributions relative to one's endowment (Hofmeyr et al., 2007; Keser et al., 2014) may be influenced by minimum-contribution requirements. We consider three different schedules: FixMin, requiring the same absolute contributions, RelMin, requiring the same relative contributions, and ProgMin, requiring minimum contributions that progressively increase with the endowment. We find that minimum contributions exert norm-giving character and may lead to an increase in average group contributions. This is especially true for the progressive schedule. On the individual level, this schedule leads to higher relative contributions by the wealthier players and thus violates the "fair-share" norm. On the group level, it leads to the highest contribution level and the lowest inequality in total profits as measured by the Gini index.

[Keser-MANDATORY MINIMUM CONTRIBUTIONS, HETEROGENEOUS ENDOWMENTS AND VOLUNTARY PUBLIC-GOOD PROVISION-494.pdf](#)

On the History of the Concept of Public Goods. Assessing Richard A. Musgrave's contribution

Maxime Desmarais-Tremblay

University of Lausanne (Switzerland), University of Paris ¹Pantheon-Sorbonne (France)

This paper provides a narrative of the emergence of the standard textbook definition of public goods. It focuses on Richard A. Musgrave's contribution in defining public goods as non-rival and non-excludable—from 1937 to 1973. Although Samuelson's mathematical definition is generally used in models of public goods, the qualitative understanding of the specificity of pure public goods owes more to Musgrave. I argue that the evolution of Musgrave's writings on public goods exemplifies the refinements of a theoretical question through exchange with colleagues, in particular Samuelson. It also reflects Musgrave's intention to justify his view of the role of the state in providing goods and services to the citizens with an argument that would be convincing to the community of American economists in the middle of the 20th century.

[Desmarais-Tremblay-On the History of the Concept of Public Goods Assessing Richard A Musgrave's contribution-5.pdf](#)

11:00am - 1:00pm
Ed Burke Theatre

Corporate Taxation and Firm Behaviour

E

Corporate tax incentives and capital structure: empirical evidence from UK tax returns

Michael Devereux¹, Giorgia Maffini², Jing Xing³

¹Oxford University Centre for Business Taxation, University of Oxford; ²Oxford University Centre for Business Taxation, University of Oxford; ³Shanghai Jiao Tong University, China, People's Republic of

This study examines how companies' capital structures are affected by the corporate income tax system using confidential firm-level corporation tax return data in the UK. Our main identification strategy uses variation in firms' marginal tax rates due to the existence of kinks in the corporate tax rate schedule. Using a dynamic adjustment model of capital structure, we find a positive and substantial long-run tax effect on firms' financial leverage. We show that there are considerable discrepancies between firms' taxable profits reported in tax returns and those estimated based on firms' financial statements. We further show that the estimated long-run tax effect on capital structure is likely to be biased downward when the marginal tax rate is constructed according to firms' financial statements. Moreover, we find that the external leverage of both domestic stand-alone firms and multinational firms responds strongly to corporate

tax incentives.

 [Devereux-Corporate tax incentives and capital structure-383.pdf](#)

The effects of financing constraints and cost of capital on investment: evidence from the Canadian income trust sector

Katarzyna Anna Bilicka

Oxford University, United Kingdom

Income trusts are two-layer Canadian entities that are not taxed at the trust level if they distribute their cash flows, while their unitholders are taxed on the distributions at their marginal personal tax rates. Income trusts have become popular in Canada due to their two distinct tax advantages; the ability to decrease corporate income tax at the operating company level by facilitating higher leverage and lower total tax on distributed profits for ultimate owners. Earnings, which might be used as a low cost source of finance for investment, are at the operating company level and cannot be retained without foregoing the tax advantage. Therefore an income trust has a lower cost of capital for all sources of financing, but it has to rely more on the more expensive external sources of finance. I investigate these conflicting forces and their effects on investment by examining the 2006 Canadian income trusts reform.

 [Bilicka-The effects of financing constraints and cost of capital-272.pdf](#)

The Effect of Investment Tax Incentives: Evidence from China's Value-Added Tax Reform

Lei Zhang¹, Yuyu Chen², Zongyan He²

¹Shanghai Jiao Tong University, China, People's Republic of; ²Beijing University, China

We study the impact of investment tax credit on firm fixed investment, using China's 2004 value-added tax reform pilot that introduces a permanent 17%-tax credit for firms' fixed investment in six broadly-defined industries in the Northeastern region. We present evidence of a positive and significant impact on eligible firms graphically and from a difference-in-differences-in-differences framework with an elasticity of 0.28, corresponding to a user-cost elasticity of 1.6. The result holds for established firms, is stronger for smaller firms and for growing firms, and is robust to specifications addressing the issue of anticipation. Both state-owned and domestic private firms exhibit positive and significant responses to the tax credit.

 [Zhang-The Effect of Investment Tax Incentives-369.pdf](#)

On the interdependency of profit shifting channels and the effectiveness of anti-avoidance legislation

Olena Dudar¹, Katharina Finke², Hannah Nusser³

¹ZEW, Germany; ²ZEW and University of Mannheim; ³University of Mannheim

A key element in the BEPS discussion are strategies of multinationals using intra-group interest and royalty payments as well as transfer pricing to reallocate profits within the group in a tax minimizing manner. While these papers study the impact of either thin capitalization or transfer pricing rules separately, the literature remains largely silent on the relationship between these two countermeasures and their mutual effect on BEPS.

The paper contributes to a growing literature on the effect of anti-profit shifting behaviour. In contrast to existing studies, we explicitly look at more than one profit-shifting channel at a time to identify their degree of interdependence. The greater the scope for substitution between different channels is the smaller should be the real economic response in terms of investment and labour. In that regard, our results should shed some light on the question why only few studies find effects of anti-avoidance regulations on FDI.

 [Dudar-On the interdependency of profit shifting channels and the effectiveness of anti-avoidance.pdf](#)

11:00am - 1:00pm
Room 4047

Fiscal Policy III

E

Taxes, Spending and Economic Growth? A Bayesian Model Averaging Approach

K. Peren Arin², Elias Braunfels¹, Gernot Doppelhofer¹

¹NHH Norwegian School of Economics, Norway; ²Zayed University, Abu Dhabi

This paper examines which type of taxes and public spending matter for economic growth. We address the issue of model uncertainty using Bayesian model averaging. Our analysis is based on panel data for OECD countries in the period 1990-2009 and controls for country and time fixed effects. The main findings are: First, there is a robust link between some, but not all, fiscal variables and economic growth. Second, on the spending side, productive public spending has a robust positive effect on growth. Third, on the income side, average other tax revenues and marginal top corporate taxes have a robust negative, while the budget surplus has a robust positive effect. Fourth, top income tax rates, government consumption, other expenditures and average distortionary domestic taxes do not have robust growth effect. We also analyze the timing of effects and find that most effects occur with a lag of two years.

 [Arin-Taxes, Spending and Economic Growth A Bayesian Model Averaging Approach-322.pdf](#)

Take it to the Limit: The Debt Limit, Political Brinkmanship, and Treasury Yields

David Byron Cashin

Federal Reserve Board of Governors, United States of America

This study estimates the effect of the 2011 and 2013 debt limit episodes on Treasury security yields. To do so, we separate the average wedge over expected market rates on all Treasury securities outstanding from excess yields on securities that could be affected by a delayed principal or interest payment in the event of a debt limit breach. We find a statistically significant increase in Treasury security yields of 4 to 7 basis points (bps) across all maturities just prior to the projected breach dates. We also find that excess yields for individual bills that matured soon after the projected breach dates appeared earlier and were significantly higher for the 2013 episode, peaking at 46 bps in 2013, but only 21 bps in 2011. We attribute these differences across episodes to learning by market participants.

 [Cashin-Take it to the Limit-215.pdf](#)

What drives the Savings Glut? The Institutional Origins of Foreign Reserves Accumulation

Kai Jäger

Ifo Institute, Germany

Two prominent theories describe why authoritarian regimes accumulate more foreign reserves than democracies: The political business cycle theory and the veto player theory. I use panel data for up to 183 countries over the period 1990-2013. The results show that democratic governments tend to reduce their reserves before an election, while veto players influenced reserves investment only in some democracies. Elections and veto players do not have an influence in non-democracies. Authoritarian rulers are thus not likely to manipulate foreign reserves before elections.

 [Jäger-What drives the Savings Glut The Institutional Origins-572.pdf](#)

Moral Hazard, Profits and Taxation of the Financial Sector

Wolfgang Eggert¹, Gaetan Nicodeme², Sebastian Heitzmann³

¹University of Freiburg, Germany and CESifo; ²European Commission, Université Libre de Bruxelles, CEPR and CESifo; ³University of Freiburg, Germany

The financial sector has traditionally been exempted from VAT on its margin-based operations under the EU VAT Directive. As a consequence, the sector does not charge VAT to its clients but cannot deduct input VAT either. The financial crisis and the need for additional tax revenues have raised again the question as whether this exemption leads to undertaxation and affects moral hazard. This paper extends the Hellmann-Murdock-Stiglitz model of bank moral hazard to assess at the effects of various financial sector taxes on profit, tax collection and risk-taking.

 [Eggert-Moral Hazard, Profits and Taxation of the Financial Sector-449.pdf](#)

11:00am - 1:00pm
Room 4050B

Higher Education


E

A quantitative evaluation of education and public finance with an aging population

Thomas Davoine

Institute for Advanced Studies, Austria

Increases in life expectancy alone provide incentives for more education, as the amortization period of human capital investments is longer. The need to finance public expenditures which comes with population aging, such as pensions, health and long-term care, however also increases. If satisfied with distorting taxation, this public finance pressure can have a negative effect on education incentives. I use an overlapping-generations model with endogenous education decisions into three skill classes, calibrated in detail for Germany, to find the net impact of population aging and institutions on education incentives. Replicating official EU expenditures projections in the calibration, I find that the net impact is negative. In 2060, only 17% of new workers are projected to have a higher education, down from 21% today. The associated public finance cost is 2.5 percentage points of GDP larger than in projections which assume constant education.

 [Davoine-A quantitative evaluation of education and public finance with an aging population-429.pdf](#)

Why academic quality of higher education declines

Volker Meier¹, Ioana Schiopu²

¹University of Munich, Germany; ²ESADE Business School, Spain

We investigate the choice of quality, or academic content, in higher education in a two-sector model. Each sector works with only one type of labor, skilled or unskilled, and individuals are differentiated according to their cost of acquiring human capital. A higher academic quality increases productivity upon training, but is also associated with higher cost of acquiring skill. We consider both an American-type university system in which quality is tailored to the individual need, and a European-type system in which a uniform quality is politically determined. The former yields a higher income dispersion. Average quality decreases under both systems when the skill premium increases. Moving from a single stage to a two-stage scheme reduces quality in the first stage and increases quality in the second stage.

 [Meier-Why academic quality of higher education declines-129.pdf](#)

A Contribution to The Study of Global Competition for Talent: the determinants of student mobility and its consequences for the internationalization of the labor market

Marcel Gerard

University of Louvain, Belgium

Although student mobility is a growing phenomenon, publications and research on the subject remain relatively scarce. This paper aims to contribute to that literature through an empirical analysis which exploits a questionnaire submitted to university alumni and focuses on two research questions: what drives studies abroad and what drives expatriation of graduates.

Our empirical analysis first shows that exposure to international experiences before entering tertiary education and family background are the main factors influencing student mobility. A second conclusion is that studying abroad increases the international mobility on the labor market. Both confirm previous studies (Joint work with Melanie Voin)

 [Gerard-A Contribution to The Study of Global Competition-320.pdf](#)

Aid for all: College coaching, financial aid, and post-secondary persistence in Tennessee

William F Fox, Celeste Carruthers

University of Tennessee, United States of America

Beginning with the high school class of 2015, Tennessee will provide college coaching and last-dollar aid to every student making a seamless transition to community college. We examine the program that preceded this effort and evaluate its potential effect on college-going and college persistence. Knox Achieves originated in Knox County, Tennessee with the class of 2009. Eligibility was neither need-based nor merit-based, negating the complexity hurdles that accompany other aid vehicles. We find that the program is strongly associated with an increased likelihood of graduating from high school and enrolling in college, albeit with a lower chance of enrolling in a four-year college. Relative to postsecondary peers, participants' college persistence was on par with that of matched non-participants.

 [Fox-Aid for all-485.pdf](#)

11:00am - 1:00pm
Room 5025

Housing and Taxation

E

Differentiated property tax and urban sprawl in Italian urbanized areas

Barbara Ermini, Raffaella Santolini

Polytechnic University of Marche, Italy

City's core and suburbs tax differentials can affect sprawl within an urban area. The paper empirically addresses this issue by analyzing the pattern of growth of 72 Italian urbanized areas. As a novelty, it investigates the causes of the emerging land development pattern. Results show that density of urban area declines in response to an increase in the city's core property tax rate. This effect is due to changes in dwelling size. By contrast, density of urban area significantly rises when suburbs property tax rates increase, making the urban area more compact. This effect is attributable to changes in the improvement effect of property taxation.

 [Ermini-Differentiated property tax and urban sprawl in Italian urbanized areas-374.pdf](#)

Property Taxation, Local Labor Markets and Rental Housing

Max Löffler^{2,4}, Sebastian Siegloch^{1,2,3}

¹University of Mannheim, Germany; ²ZEW Mannheim; ³CESifo; ⁴University of Cologne

Although being heavily analyzed and discussed, there is neither a theoretical nor an empirical consensus on the incidence of the property tax. In this paper, we suggest a novel theoretical approach by introducing property taxation into a Rosen-Roback type local labor market model. Besides the standard relative elasticity result, we find that the tax incidence depends on location preferences. The advantageous institutional setting of property taxation in Germany enables us to test our theoretical predictions and provide a clean estimate of the tax incidence using a non-parametric event study research design. Using a panel of roughly 540 communities over up to 20 years, we show that in the short run, the incidence is born by landlords since housing supply is inelastic. As housing supply becomes more elastic over time, landlords are able to shift the burden onto tenants. After 6 years, net rents are on the pre-reform level, implying full shifting of the tax.

 [Löffler-Property Taxation, Local Labor Markets and Rental Housing-458.pdf](#)

Housing, Capital Taxation and Bequests in a Simple OLG Model

Jamil Nur¹, Robert Gary-Bobo^{2,3}

¹Sciences Po, France; ²CREST, France; ³ENSAE, France

We study the allocation of housing capital in an overlapping generations economy with competitive property and housing rental markets. Identical consumers have paternalistic bequest motives and inherit from their parents at retirement. The stationary competitive equilibrium is inefficient, since old agents consume too much perishable goods and housing. The golden rule stationary optimum is achieved through a simple system of proportional taxes. In the optimal allocation, the young rent their homes and the old own the entire stock of housing capital. Housing capital and capital-income, that is, rents, are both taxed. But the young's rents and bequests must be subsidized. The former are financed by the tax on rents, the latter by labor income tax and property tax revenues.

The government's budget is balanced. The negative tax on bequests acts as a pension benefit, paid out of a public pension fund, based on the market value of the housing-capital stock.

 [Nur-Housing, Capital Taxation and Bequests in a Simple OLG Model-411.pdf](#)

Testing Fiscal Illusion in Property Reassessments

Catarina Alvarez, Albert Solé-Ollé, Dirk Foremny

Universitat de Barcelona & IEB, Spain

We test the existence of fiscal illusion from property reassessments in Spanish municipalities by taking advantage of a natural experiment: the tax revolt occurred in Spain in 1990. We first quantify the impact of reassessments on the level of revenues. Our main hypothesis is that if voters are fully informed by the effects of reassessments on property tax collections there should be no impact on level of revenues, because local governments will always compensate the effect by adjusting the tax rates. In contrast, a positive impact of property reassessments on the level of revenues might suggest that a sort of fiscal illusion is at work. We conduct a Difference-in-Differences (DD) analysis and we identify a strong positive and significant impact of property reassessments on the level of property revenues. To further test this hypothesis, we measure the electoral consequences of property reassessments by focusing on the probability of reelection.

 [Alvarez-Testing Fiscal Illusion in Property Reassessments-447.pdf](#)

11:00am - 1:00pm
Swift Theatre

International Trade and Taxation

E

A Bird in the Hand or Two in the Bush? Tax Revenues and WTO Accession

Thiess Buettner, Boryana Madzharova

Univ Erlangen Nuremberg, Germany

This paper explores the implications of trade-liberalization policies for tax revenues. The focus is on the issue whether countries have been able to recover revenue losses associated with import duties by indirect taxes. To this end, we focus on GATT/WTO accession and explore the revenue performance. Employing a robust difference-in-difference specification, our results reveal a statistically significant inverse relationship between GATT/WTO membership and import duties supporting concerns about revenue losses. At the same time, however, we find a significant increase in revenues from indirect taxes including VAT. Our findings indicate that countries joining GATT/WTO, including low income countries, have successfully substituted revenues from import duties with higher indirect taxes.

 [Buettner-A Bird in the Hand or Two in the Bush Tax Revenues and WTO Accession-319.pdf](#)

A New Dataset on Language Course Participation

Silke Uebelmesser¹, Severin Weingarten²

¹University of Jena and CESifo; ²University of Jena

Optimal integration policies should take the language skills of arriving migrants into account. However, most survey-based studies cannot distinguish between language learning before and after migration. We present a new dataset which reports the extent of language course and exam participation at the German Goethe institutes in Germany and 89 other countries for 1966--2012. We estimate a fixed-effects model to investigate migration-related and trade-related drivers of language learning. Both immigration and trade flows are positively associated with language learning. The relationship between language learning and migration weakens as migrant stocks from the respective country in Germany grow. We interpret this as a disincentive effect of minority language concentrations on learning. Linguistic distance strengthens the relationship in some estimations. The relationship between language learning and trade strongly depends on linguistic and geographic distance, but the directions of the effects are different if language learning takes place abroad or in Germany.

 [Uebelmesser-A New Dataset on Language Course Participation-379.pdf](#)

The Effects of Preshipment Inspection on Import Revenue and Duty Avoidance: Evidence from the Commodity-Level Import Data of Bangladesh

Makoto Hasegawa¹, Rozina Parveen²

¹National Graduate Institute for Policy Studies (GRIPS), Japan; ²Custom House, Chittagong, Bangladesh

Preshipment inspection (PSI) has been widely used in developing countries to reduce customs corruption and duty avoidance by importers and ultimately to increase import duty collections. Under a PSI program, the government of a destination country requires importers to have the information of imported goods inspected and verified by third-party private agencies before shipment from an origin country. Using the commodity-level import data of Bangladesh, we examine the effects of PSI on import revenue and duty avoidance. We find that PSI increases product import revenue on average by 22 percent. However, the increase in revenue is negatively associated with tariff rates. One percentage point higher tariff rate decreases import revenue of a PSI product by 4 percent. This result suggests that the implementation of PSI for high tariff products induced importers to misclassify those products as non-PSI low tariff products to avoid PSI and evade customs duties.

 [Hasegawa-The Effects of Preshipment Inspection on Import Revenue and Duty Avoidance-342.pdf](#)

Long-term contracting, trade facilitation and customs revenues

Cyril Chalendard

CERDI University of Auvergne

In recent years, international agreements have encouraged customs to set-up authorized operator schemes. Providing a response to the classical trade-off between auditing and facilitating, these trade facilitation programs are formal and aim at reducing cross-border costs. To analyze these reforms, a simple compliance model applied to the specific cross-border situation of customs control is developed. To ensure truthful reports, we stress that termination and no forgiveness clauses should be specified in the terms of the contract. Only firms featuring a small enough discount factor must be selected. Then, the optimal long-term facilitation contract will induce cost savings for both contracting parties. Welfare is also strictly enhanced in imperfect environments (imperfect audit technology or partial collusion). We show that granted facilities always increase with imperfections: structural handicaps are thus partially compensated. Therefore customs, especially those recording a relatively poor performance, should actively work on the introduction of such trade facilitation programs.

 [Chalendard-Long-term contracting, trade facilitation and customs revenues-247.pdf](#)

11:00am - 1:00pm
Room 5033

Labour Markets I

E

Public health insurance and entry into self-employment

Johannes Marius Cornelius Koenig, Frank M Fossen

Freie Universitaet Berlin, Germany

We estimate the impact of a differential treatment of paid employees versus self-employed workers in a public health insurance system on the entry rate into entrepreneurship.

In Germany, the public health insurance system is mandatory for most paid employees, but not for the self-employed, who usually buy private health insurance. Private health insurance contributions are relatively low for the young and healthy, but less attractive at the other ends of these dimensions and if membership in the public health insurance system allows other family members to be covered by contribution-free family insurance. Therefore, the health insurance system can create incentives or disincentives to starting up a business depending on the family's situation and health.

We estimate that an increase in the health insurance cost differential between self-employed workers and paid employees by 100 euro per month decreases the annual probability of entry into self-employment by 0.38 percentage points.

 [Koenig-Public health insurance and entry into self-employment-238.pdf](#)

Getting the Poor to Work: Three Welfare Increasing Reforms for a Busy Germany

Davud Rostam-Afschar, Robin Jessen, Viktor Steiner

Freie Universitaet Berlin, Germany

We study three budget neutral reforms of the German tax and transfer system designed to improve work incentives for people with low incomes: a feasible flat tax reform that provides a basic income and two reforms that involve employment subsidies. One of the employment subsidies aims to increase incentives to participate in the labor market, the other to work full time. We estimate a structural labor supply model and find that all three reforms increase labor supply in the first decile of the income distribution. With equal welfare weights, aggregate welfare gains are realizable under all three reforms. The stronger the redistributive taste, the higher are the welfare gains of the flat tax reform.

 [Rostam-Afschar-Getting the Poor to Work-276.pdf](#)

Cost-benefit analysis of the Full Employment experiment

Kari Olavi Hamalainen¹, Ulla Hamalainen²

¹VATT Institute for Economic Research, Finland; ²Social Insurance Institution Finland

We evaluate a regional full-employment experiment conducted in one municipality in Finland. The novel aim of the experiment was to employ all unemployed persons by turning all public expenditure on unemployment into wages. Our evaluation strategy exploits the synthetic control method that provides a systematic way to choose comparison units in comparative case studies. We use this framework to assess net costs and benefits of the experiment. Our results show that the experiment managed to lower the unemployment rate in the experiment region by over 10 percentage points in an era of global financial crisis. This resulted in the net loss of 7.8 million euros, or 45 per cent of actual spending on government budget. It is also probable that society experienced net loss.

 [Hamalainen-Cost-benefit analysis of the Full Employment experiment-542.pdf](#)

Adult skills and labor market conditions during teenage years: Cross-country evidence from ALL and PIAAC

Marianne Haraldsvik, Bjarne Strøm

Norwegian University of Science and Technology, Norway

Do individuals that happen to finish compulsory school in economic downturns end up with more years of completed education and higher skills in adulthood than comparable individuals that finish compulsory school in economic upturns? This paper answers this question by exploring data on country unemployment rates combined with newly available individual data on adult skills in numeracy and literacy from the Program for the International Assessment of Adult Competencies (PIAAC) and the Adult Literacy and Life Skills Survey (ALL). We find that completed education is countercyclical, and the same pattern is found for adult skills in numeracy and literacy. The results are fairly robust across different model specifications including fixed country and cohort effects and linear and quadratic country specific cohort trends. The results indicate that the labor market conditions at the time when young people make crucial educational decisions have long lasting effect on their skills in adulthood.

 [Haraldsvik-Adult skills and labor market conditions during teenage years-460.pdf](#)

11:00am - 1:00pm

Beckett Theatre 1

Political Economics II

E

Policy Choices in Assembly versus Representative Democracies: Evidence from Swiss Communes

Patricia Funk¹, Stephan Litschig²

¹Università della Svizzera italiana, Switzerland; ²CSIC

This paper investigates whether the form of the legislative institution - assembly versus parliament - affects the level and composition of local public spending. We collect data at the commune level in Switzerland over the period 1945-2010 and use two research designs: fixed effects and regression discontinuity (RD) based on local population. Analyzing communes that switched the form of their legislative institution over time, we find that introducing a parliament leads to a 12 percent increase in both general administration and education spending per capita. In contrast, regression discontinuity estimates cannot be distinguished from zero for any spending category. Our results highlight the local nature of discontinuity estimates (population is an order of magnitude larger in our switcher sample compared to the RD sample) as well as the importance of contextual factors (stage of development of a given democracy) for the effect of legislative institutions on policy choices.

 [Funk-Policy Choices in Assembly versus Representative Democracies-136.pdf](#)

Public Employees as Politicians: Evidence from Close Elections

Ari Hyytinen³, Jaakko Meriläinen², Tuukka Saarimaa¹, Otto Toivanen⁴, Janne Tukiainen¹

¹VATT, Finland; ²IIES, Sweden; ³University of Jyväskylä, Finland; ⁴KUL, Belgium

We analyze the effect of municipal employee representation a municipal council on local public spending using close elections within parties for identification. We develop a procedure of aggregating these candidate level close contests into a municipal level treatment. We find that electing one additional municipal employee increases spending in a municipality with a median sized council of 27 seats by about 1 percent on average over the four-year council term. Using detailed information on candidates' occupation, gender and municipal spending categories, we also find that especially male municipal health care sector employees increase health care spending in the municipality, but not other types of spending.

 [Hyytinen-Public Employees as Politicians-242.pdf](#)

Can Post WWI Military Disarmament Explain the Growth of Interwar Fascism?

Matz Dahlberg¹, Heléne Lundqvist², Kåre Vernby¹

¹Uppsala University, Sweden; ²Stockholm University, Sweden

The purpose of this paper is to examine what role the major disarmament of the military sector in the late 1920s and early 1930s, following a far-reaching political decision in 1925, had in explaining the success of Nazi and fascist parties in the 1930s in Sweden.

Among Nazi and fascist parties in the 1930s, both the National Socialist Labor Party and the preceding Swedish National Socialist Party were founded by military officers who expressed discontent with the military disarmament. Our main hypothesis is that fascist parties' activity on the electoral arena is largely explained by military factors.

To quantitatively study this explanation, we have put together a historical data set covering Swedish municipalities in the 1920s and 1930s.

Our preliminary results indicate a large and robust relationship between garrison shutdowns and electoral activity by Nazi and fascist parties, whereas economic and social conditions are only weakly related to said outcome.

 [Dahlberg-Can Post WWI Military Disarmament Explain the Growth-304.pdf](#)

Pocketbook voting and social preferences in referenda

Johannes Meya¹, Panu Poutvaara^{2,3}, Robert Schwager¹

¹Georg-August University Goettingen; ²University of Munich; ³Ifo Institute

We study the role of self-interest and social preferences in referenda. Our analysis is based on collective purchasing decisions of university students on deep-discount flat-rate tickets for public transportation and culture. Individual usage data allows quantifying monetary benefits associated with each ticket. We find that turnout is much higher among students who benefit a lot from having a ticket, suggesting instrumental voting. In each referendum, a majority votes in line with self-interest, providing strong evidence for pocketbook voting. However, social preferences like altruism, public good considerations and paternalism shift the vote of a sizeable minority against their own financial interest.

 Meya-Pocketbook voting and social preferences in referenda-281.pdf

11:00am - 1:00pm
Room 5052

Redistribution I

E

Is there More Redistribution Now? A Toolkit for Evaluating Tax Redistributive Effects

Thor O. Thoresen^{1,2}, Zhiyang Jia¹, Peter J. Lambert³

¹Statistics Norway, Norway; ²University of Oslo; ³University of Oregon

When the Norwegian centre-left government asked us to evaluate their tax redistributive efforts during their time in office (2005–2013), we faced a literature which offers a number of possible ways to do this. Studies vary along several dimensions, as with respect to the definition of individual well-being, in which simulation models or actual data are used, and how distinctly the contributions from tax policy effects are identified. In this paper we discuss various approaches which can be used to assess the link between individual taxation and redistribution over time. The discussion is accompanied by empirical illustrations of different techniques, showing results for the case of the personal income tax schedule of Norway 2005–2013.

 Thoresen-Is there More Redistribution Now A Toolkit for Evaluating Tax Redistributive Effects-147.pdf

Decomposing income changes in the UK in the 2000's

Iva Tasseva

University of Essex, United Kingdom

This paper documents in detail the different drivers of changes across the entire distribution of household disposable income and inequality levels in the 2000's in the UK. Combining microsimulation techniques, parametric and non-parametric methods, we decompose income changes due to a direct fiscal policy effect, benefit take-up effect, and population characteristics and market incomes effect. We find a small reduction in the Gini coefficient mostly explained by the policy effect. In terms of the population characteristics and market incomes effect we find that expansion of higher education has benefited the richer income decile groups and contributed to increased income inequality. However, wages with respect to the returns to university degree in high-skilled occupations have not changed, remaining resilient in the crisis years. Finally, we find that increased migration had a slight positive effect on wages and household incomes at the top of the income distribution.

 Tasseva-Decomposing income changes in the UK in the 2000's-282.pdf

Redistributive Effects of Income Tax Rates and Tax Base 1984–2009: Evidence from Japanese Tax Reforms

Takeshi Miyazaki¹, Yukinobu Kitamura²

¹Kyushu University; ²Hitotsubashi University

The primary objective of this paper is to examine how, and to what extent, changes in income tax rates and income tax deductions affect income inequality from a longitudinal perspective, by using microdata of Japanese individuals and households. The findings of this paper could shed light on the effects of tax rates and tax deductions on tax progressivity. First, it is shown that redistributive effects of Japanese income tax reforms declined for the period from 1984–2009. Second, the tax reforms with reductions in tax rates and in tax base gave rise to greater redistributive effects of income tax rates and smaller redistributive effects of tax base. Third, in this study any progressivity measure and approach to determine pretax income showed the same trends, with respect to the redistributive effects of tax reforms.

 Miyazaki-Redistributive Effects of Income Tax Rates and Tax Base 1984–2009-323.pdf

The Political Sustainability of a Basic Income Scheme and Social Health Insurance

Mathias Kifmann¹, Kerstin Roeder²

¹University of Hamburg; ²LMU, Munich, Germany

This paper studies how society votes on the payroll taxes of a basic income and a social health insurance scheme. Individuals differ along the two most important dimensions when it comes to the design of the two welfare schemes, namely, income and risk. Even though the introduction of a basic income scheme opens up the possibility for additional redistribution, it also crowds out social health insurance. We show that when both welfare schemes are open for debate, the political equilibrium is such that only the basic income scheme prevails. At the constitutional stage we determine which welfare scheme society agrees to implement

behind the veil of ignorance and with a Rawlsian objective. Since social health insurance not only redistributes income from rich to poor but also from low-risk to high-risk agents, the doubly disadvantaged in society – low-income and high-risk agents – may lose out in the political process when a basic income scheme is in place.

 Kifmann-The Political Sustainability of a Basic Income Scheme and Social Health Insurance-125.pdf

11:00am - 1:00pm
Room 4050A

Spillovers

E

Spillover Effects in a Federal Country with Vertical Tax Externalities

Lisa Grazzini, Alessandro Petretto

University of Florence, Italy

We analyse how spillover effects may affect the choice of a federal tax rate in a federal country with vertical tax externalities. Our main result shows under which conditions the federal tax rate with spillover effects is lower or higher than the federal tax rate without spillover effects.

 Grazzini-Spillover Effects in a Federal Country with Vertical Tax Externalities-202.pdf

Altruism, Environmental Externality and Fertility

Takashi Sato¹, Kimiyoshi Kamada², Makoto Hirazawa²

¹Shimonoseki City University, Japan; ²Chukyo University, Japan

We investigate the interaction between environmental quality and fertility in an altruistic bequest model with pollution externalities created by the aggregate production. Despite the negative externality related to the endogenous childbearing decisions, the parents may choose to have fewer children in the competitive economy than in the social optimum. To achieve optimality, positive taxes on childbearing are required even with an insufficient number of children, if the social discount factor equals the parents' degree of altruism. On the other hand, child allowances constitute the optimal policy if the social discount factor exceeds the parents' degree of altruism and is assigned equally among parents and children.


 Sato-Altruism, Environmental Externality and Fertility-378.pdf

Overlapping International Green R&D Agreements

Emilson Caputo Delfino Silva¹, Chikara Yamaguchi²

¹University of Alberta, Canada; ²Hiroshima Shudo University

We examine the formation of multilateral, hub-and-spoke and bilateral green technology international agreements. Green R&D provision produces two types of positive externalities: a global public good (i.e., reduction of CO2 emissions) and knowledge spillovers in technology agreements. We utilize the perfectly-coalition-proof-Nash equilibrium (PCPNE) concept to refine the set of Nash equilibria. Multilateral and hub-and-spoke coalitional structures are PCPNE, even in large economies, in the absence of income transfers for different values of attrition costs. Fully participated multilateral coalitional structures are not stable in the presence of income transfers; however, the size of the stable coalition increases as the economy expands.

 Silva-Overlapping International Green R&D Agreements-104.pdf

total capital stock ratio in those industries. The latter result is consistent with machinery and equipment being more industry specific than buildings and structures, and thus less valuable as collateral.

[Secieru-Firm-level Investment and Financial Constraints Does One Size Fit All-511.pdf](#)

Tax Policy and Investment: Evidence from the UK Change to Territorial Taxation

Li Liu

University of Oxford, United Kingdom

The United Kingdom switched from a system of worldwide taxation to a territorial system which exempts all foreign-earned income from taxation in 2009. This fundamental change increased investment incentives faced by UK multinationals in countries with a lower corporate tax lower compared to the UK. In this paper I use data on multinational affiliates located in 27 European countries and employ the difference-in-differences approach to assess the causal effect of dividend exemption on real investment by UK-owned multinational affiliates. I find that UK's switch to dividend exemption increased outbound investment by UK multinationals in low tax countries and decreased outbound investment by UK multinationals in high tax countries. In contrast, the tax reform had no clear impact on domestic investment behaviour of UK multinationals in the UK.

[Liu-Tax Policy and Investment-420.pdf](#)

Using Strategic Interactions in Investment Decisions to Increase the Efficiency of Tax Policy

Nathan Seegert¹, Elena Patel²

¹University of Utah, United States of America; ²Office of Tax Analysis, US Department of the Treasury

Throughout the 2000s Congress implemented several rounds of bonus depreciation legislation as a means of providing post-recessionary economic stimulus, the first ever experience beginning in 2002. We demonstrate theoretically the effectiveness of this policy depends on the competitive pressures that firms face. Empirically, we find that the effect of competition in a market is large enough to affect firms' investment responses to bonus depreciation. Specifically, we find that bonus depreciation increased investment for firms in concentrated markets by an average of \$1.8 million but had no affect for firms in competitive markets, consistent with the theory. Beyond the policy relevance of the estimates in this paper, we demonstrate a much broader point for future policy research about the interaction between fiscal policy and market structure. Specifically, the failure to account for the strategic behavior of firms can have dramatic and misleading effects on the qualitative as well as quantitative analysis of fiscal policy.

[Seegert-Using Strategic Interactions in Investment Decisions-160.pdf](#)

11:00am - 1:00pm
Room 5039

Taxation of Natural Resources

E

Lobbying over Exhaustible-Resource Extraction

Achim Voss¹, Mark Schopf²

¹University of Hamburg, Germany; ²University of Paderborn, Germany

Consider a lobby group of exhaustible-resource suppliers, which bargains with the government over the extraction of an exhaustible resource and over contribution payments. We characterize the path of contributions and the resulting extraction path, taking into account how the environmental damage of resource usage and the demand elasticity change optimal extraction. A high marginal environmental flow damage reduces the government's preferred speed of extraction, a low price elasticity of resource demand reduces that of the lobby. Moreover, the lobby's preferred total extraction exceeds that of the government whenever environmental stock damages exist. Contributions may increase and/or be negative for a while but eventually decline and vanish in the long run.

[Voss-Lobbying over Exhaustible-Resource Extraction-532.pdf](#)

Optimal resource rent taxation when nations are credit constrained

Diderik Lund

University of Oslo, Norway

The Resource Rent Tax suggested by Garnaut and Clunies Ross (1975) has been influential in resource rich countries and in academic literature. Several authors show that it distorts investments through asymmetric treatment of profits and losses. Neutrality can only be achieved if authorities commit to treating these symmetrically, guaranteeing loss offset through payouts if necessary. Risks are substantial, both in output (technology, geology) and (output and factor) prices. Many nations will be unable or unwilling to take risks involved in such guarantees. We analyze optimal rent taxation in this situation, maximizing tax revenue subject to a constraint of no loss offset.

[Lund-Optimal resource rent taxation when nations are credit constrained-241.pdf](#)

Resource curse avoidance: Governmental intervention and wage formation in the Norwegian petroleum sector

Jan Morten Dyrstad

Norwegian University of Science and Technology, Norway

In societies with well functioning institutions, the most likely channel for Dutch disease turning a presumably blessing resource windfall into a curse, is the wage formation process. Hence, this process is crucial in order to avoid the resource curse. This paper analyzes how the Norwegian Government intervened in the wage formation process in 1981 to prevent the extraordinary wage inflation in the Norwegian petroleum sector to become detrimental to the rest of the economy. The empirical analysis shows that the intervention was successful as insider weights and insider hysteresis effects were effectively reduced, and that the system of coordinated wage bargaining was re-established. The principal conclusion is that institutions play a crucial role in avoiding adverse economic development.

[Dyrstad-Resource curse avoidance-273.pdf](#)

Mining Taxation and Profitability Links of Indian Firms: Evidence from Dynamic Panel Data

Lekha Chakraborty, Sahil Ravgotra

National Institute of Public Finance and Policy, India, The Levy Economics Institute of Bard College, New York

The mining taxation regime existing in India is onerous, and the royalty rates are one of the highest in the world. A major lacuna to date is the paucity of studies of the impact of such taxation regimes on the profitability of the mining firms and their competitiveness. Using Arellano and Bond (1991) Dynamic Panel Data Estimation, the paper analysed the link between mining taxation, productivity, cost and profitability of mining firms in India organised from CMIE Prowess dataset for the period of 2000-2014 in a multivariate framework. The estimates from Arellano and Bond dynamic panel data method suggest that taxation and royalty regime are significant determinants of firm-level profitability of mining firms in India. These results challenge the popular belief that the profitability of the mining firms has been largely determined by the firm level characteristics including the size, cost and capital structure and not by the public policy variables.

[Chakraborty-Mining Taxation and Profitability Links of Indian Firms-390.pdf](#)

2:00pm - 3:00pm
Ed Burke Theatre

Plenary III: Keynote Lecture by Rosanne Altshuler, Rutgers University: "Evaluating Reforms of the Taxation of Cross-border Income in a World with Competitive Firms and Competitive Governments"

Session Chair: Dhammika Dharmapala, University of Chicago

Evaluating Reforms of the Taxation of Cross-Border Income

Rosanne Altshuler

Rutgers University, United States of America

Plenary III: Keynote Lecture

[Altshuler-Evaluating Reforms of the Taxation of Cross-Border Income-578.pdf](#)

3:30pm - 5:30pm
Swift Theatre

Analysing Corporate Tax Reforms

F

Unilateral Introduction of Destination-Based Corporate Income Taxation

Johannes Becker, Markos Jung

University of Muenster, Germany

We consider source-based and destination-based corporate income taxation in a symmetric two-country model with heterogeneous firms. Whereas source-based taxation yields (fiscal) externalities and is thus inefficient, bilateral destination-based taxation is efficient, as proposed by Auerbach & Devereux (2013). This paper shows that the unilateral introduction of a destination-based tax may, first, increase tax revenue in both countries and, second, be Pareto improving if certain conditions are met. Thus, even if a multilateral reform is not feasible, a unilateral reform may be desirable both from the individual and the global point of view.

 [Becker-Unilateral Introduction of Destination-Based Corporate Income Taxation-175.pdf](#)

Computing Effective Tax Rates in presence of Nonlinearities in Corporate Taxation

Antonella Caiumi¹, Lorenzo Di Biagio², Marco Rinaldi³

¹ISTAT, Italy; ²ISTAT, Italy; ³ISTAT, Italy

The focus of this paper is how forward-looking effective tax rates can be computed in the presence of ceilings and carryovers in the taxable base using the Devereux-Griffith approach. As far as is known, this is the first contribution on this issue. More specifically, the paper examines the impact on investment incentives of a new treatment of interest expense which sets a ceiling, defined in terms of the firm's EBITDA, on net deductible interest expense allowing both non-deductible interests and unused EBITDA carryovers. The effects that interest deduction caps have on effective tax rates are not at all negligible. Further, the analysis illustrates the implications of the limitation on interest deductibility on the choice of funding by comparing alternative tax regime: a profit tax and an allowance for corporate equity (ACE) tax regime. Finally, a toolkit that allows to tackle any form of non-linear tax liabilities function is developed.

 [Caiumi-Computing Effective Tax Rates in presence of Nonlinearities in Corporate Taxation-414.pdf](#)

Effective Corporate Taxation, Tax Incidence and Tax Reforms:

Salvador Barrios¹, Gaetan Nicodème², Antonio Jesus Sanchez Fuentes³

¹European Commission, Joint Research Centre, Spain; ²European Commission, ULB, CESifo and CEPR; ³Universidad Complutense de Madrid

The present study provides estimates of the Effective Marginal Tax Rates (EMTRs) for a sample of OECD countries and manufacturing sectors including corporate, labour and energy taxes. We compare the incentives provided by the tax systems for economic activity and gauge the effects of tax changes taking explicitly into account the possible substitution between factors as well as their tax incidence. Our results suggest that the OECD tax systems provide different incentives for manufacturing activity across countries and that tax systems are relatively neutral with respect to the sectoral composition of manufacturing activities. We show that the tax incidence on labour plays a key role in determining the efficiency gains from tax reforms. In particular policy strategies favouring tax increases on energy consumption and lowering taxes on labour can substantially reduce the EMTRs although these reforms should in some instances be ambitious enough to produce desired effects on firms' EMTRs.

 [Barrios-Effective Corporate Taxation, Tax Incidence and Tax Reforms-302.pdf](#)

Thinking About the Taxation of Corporate Source Income in the European Union

Sjibren Cnossen

CPB Netherlands Bureau for Public Policy Analysis, Netherlands, The

Various proposals have been made in recent years to modernize the corporation tax (CT), ranging from income-based variants (dual income tax, comprehensive business income tax) to cash-flow alternatives (flat tax, allowance for corporate equity, rate of return allowance). This paper characterizes the various CT regimes that can be distinguished, reviews current CTs in the European Union and, against this background, evaluates various reform proposals. The paper concludes that the dual income tax, which taxes all capital income at the proportional CT rate, appears to have the edge over other forms of taxing capital income.

 [Cnossen-Thinking About the Taxation of Corporate Source Income-248.pdf](#)

3:30pm - 5:30pm
Room 5025

Corporate Taxation and Investment in the Global Economy

F

Location Decisions of Non-Bank Financial Foreign Direct Investment: Firm-Level Evidence from Europe

Neill Killeen¹, Ron Davies²

¹Central Bank of Ireland, University College Dublin; ²University College Dublin

The non-bank financial sector in the euro area has more than doubled in size over the last decade reflecting the substantial growth in shadow banking activities. However, a large proportion of the non-bank financial sector remains unmapped as granular balance sheet information is not available for almost half of the sector. Motivated by these data gaps and employing firm-level data, this paper examines the location decisions of newly incorporated foreign affiliates in the non-bank financial sector across 27 European countries over the period 2004 to 2012. The probability of a country being chosen as the location for a new foreign affiliate is found to be negatively associated with higher corporation tax rates and distance. Gravity related controls such as the home and host country sharing a common legal system, border, language and currency are found to increase the likelihood of non-bank financial FDI in the majority of our specifications.

 [Killeen-Location Decisions of Non-Bank Financial Foreign Direct Investment-466.pdf](#)

Addressing the Heterogeneity of Investment Types: Corporate Tax Elasticities Revisited

Hendrik Jungmann¹, Simon Loretz²

¹University of Salzburg; ²Institute for Advanced Studies Vienna, University of Bayreuth

This paper examines the effects of host-country taxation on different modes of investments within related firms. In particular, we classify investments into non-related (conglomerate), horizontal, vertical and complex types, using a combination of firm-specific information and sector-specific information from input-output tables. To analyze the sensitivity of investments with respect to statutory and effective corporate tax rates we estimate a possible differential impact of corporate taxation relying on an empirical gravity estimation model. First, our findings suggest that the bulk of investments is non-related nature. Second, we observe that an increase in corporate taxation exerts a significant negative impact on vertical and non-related investments whereas horizontal investments show no significant negative reaction. In line with theoretical predictions we find alternating results for complex investments.

 [Jungmann-Addressing the Heterogeneity of Investment Types-384.pdf](#)

Evaluating the Effects of ACE Systems on Corporate Debt and Investment

Martin Ruf, Shafik Hebous

University of Tuebingen, Germany

Theory recommends aligning the tax treatment of debt and equity. A few countries, notably Belgium, have introduced an allowance for corporate equity (ACE) to achieve tax neutrality. We study the effects of adopting an ACE on debt financing, passive investment, and active investment of multinational firms, using high-quality administrative data on virtually all German-based multinationals. We use two main identification strategies, based on: (1) synthetic control methods, and (2) variations across affiliates within the multinational group. Our results suggest that an ACE reduces the corporate debt ratio of multinational affiliates. Additionally, an ACE increases intra-group lending and other forms of passive investment but has no effects on production investment of multinational affiliates. The findings indicate that a unilateral implementation of an ACE system generates a tax planning opportunity using a structure combining the

benefits from the ACE with interest deductions.

 [Ruf-Evaluating the Effects of ACE Systems on Corporate Debt and Investment-344.pdf](#)

A Temporary Corporate Income Tax Reduction and Its Effects on Firm Behavior: A Case Study of Vietnam

Anh Pham

University of California San Diego, United States of America

Should corporate income tax reductions be included in a stimulus package? To address this question, this paper examines a temporary 30 percent corporate income tax reduction in Vietnam in 2009 for small and medium sized businesses. Eligible firms had no more than 300 full-time employees in 2008 or \$500,000 in initial assets. I use a difference-in-differences approach to causally identify the impacts of the program on investment, reported profits, and tax revenue of firms around 300 employees. The tax cut increased the capital stock by 11-13 percent. Before-tax profits increased during the tax cut and after the policy ended. Tax revenue increased. Plausibly, cash-constraints explained the increase in investment. Profits increased because multinational subsidiaries shifted profits into Vietnam to take advantage of the low tax rate.

The temporary tax cut increased tax revenue and the capital stock. The program turned out to be low cost for economic stimulus in Vietnam.

 [Pham-A Temporary Corporate Income Tax Reduction and Its Effects-289.pdf](#)

3:30pm - 5:30pm

Beckett Theatre 1

Electoral Competition

F

Targeted campaign competition, loyal voters, and supermajorities

Kai Andreas Konrad¹, Pierre C. Boyer²

¹Max Planck Institute for Tax Law and Public Finance, Germany; ²University of Mannheim, Germany

We consider a two-candidate campaign competition in majoritarian systems with many voters. Some voters are loyal, some can be influenced by campaign spending. Own loyalty with respect to a candidate is the voter's private information. Candidates simultaneously choose their campaign budgets and how to allocate them among the voters. We show that a candidate who has a group of loyal voters wins with a higher probability, but chooses the same expected budget size as the rival candidate. The equilibrium distributions of campaign spending target all voters equally in expectation, but target some voters more than others ex post.

 [Konrad-Targeted campaign competition, loyal voters, and supermajorities-183.pdf](#)

Measuring Electoral Competitiveness

Stephen Ferris¹, Stanley L. Winer², Bernard Grofman³

¹Economics, Carleton University, Canada; ²Economics and Public Policy, Carleton University, Canada; ³Political Science, University of California, Irvine, United States

We consider the meaning and measurement of electoral competitiveness in a parliamentary democracy, and construct a variety of indexes for the entire history of the Canadian state from 1867. Devising a measure of the competitiveness of an economic market is not an easy task, and doing so for an election contest is no less challenging. Our analysis highlights both differences and similarities among the indexes used to measure the competitiveness of economic markets and those used to measure the competitiveness of electoral contests. We apply the various indexes to measure electoral competitiveness using the complete record of regular federal constituency level elections from Confederation in 1867 to the 41st election in 2011. Finally, we pose key questions that need to be addressed in further work. This paper is a part of a larger project on the meaning, measurement and consequences for public policy of electoral competitiveness in mature democracies.

 [Ferris-Measuring Electoral Competitiveness-217.pdf](#)

Policy change, perceived discrimination and the political participation of minority and dominant groups

Avi Ben-Bassat¹, Momi Dahan^{1,2}, Esteban F. Klor^{1,3}

¹Hebrew University, Israel; ²IDI; ³CEPR

The goal of this research is to examine the differential effect of a major policy change that may be perceived by a minority group as an act of discrimination on political participation and vote choice. The policy change we use is the appointment of a summoned committee in a large number of Arab and Jewish municipalities in Israel which has been perceived differently by minority (Arab citizens) and dominant groups (Jewish citizens). We show that Arab voters in affected municipalities are more likely to show up in the ballot boxes in national elections and they tend to vote more for Arab parties. In contrast, the political participation of Jewish citizens is lower in municipalities with appointed council without noticeable effect on vote choice.

 [Ben-Bassat-Policy change, perceived discrimination and the political participation-172.pdf](#)

Identifying the Source of Incumbency Advantage through a Constitutional Reform

Mariana Lopes da Fonseca

University of Goettingen, Germany

This study relies on a constitutional reform introducing term limits at the local elections level in Portugal as a natural experiment to estimate incumbency advantage in mayoral elections. It stresses the distinction between partisan and personal incumbency advantage using data on six local elections in 278 homogenous municipalities from 1993 to 2013. The analysis is based on two quasi-experimental methods, the RD and diff-in-disc designs, that allow for credible inference upon the source and Magnitude of the incumbency advantage. Results show that the returns to incumbency accruing to the candidate are positive and significant. On the other hand, there is no evidence of a significant partisan incumbency advantage.

 [Lopes da Fonseca-Identifying the Source of Incumbency Advantage through a Constitutional Reform-403.pdf](#)

3:30pm - 5:30pm

Beckett Theatre 2

Fiscal Competition - Empirical Contributions

F

Who Competes with Whom? The Structure of International Tax Competition

Franz Reiter

University of Munich, Germany

Corporate tax rates around the world have considerably decreased in then last decades. While tax competition among countries has been widely accepted as the driving force of this trend, it has remained unclear which countries compete with whom. This paper focuses on country size as a determinant of tax competition. My empirical analysis yields two main results: First, the structure of tax competition is based on a country's size as large countries compete with other large countries and small countries compete with small ones. Second, there is a qualitative difference as large countries compete worldwide with each other whereas small countries orientate towards geographically close other small states.

 [Reiter-Who Competes with Whom The Structure of International Tax Competition-249.pdf](#)

Large and Influential: Firm Size and Governments' Corporate Tax Rate Choice

Nadine Riedel¹, Tobias Böhm², Martin Simmler³

¹Ruhr University Bochum, Germany; ²University of Münster, Germany; ³University of Oxford, UK

Theory suggests that large firms are more likely to engage in lobbying behaviour and have better bargaining positions against their host governments than smaller entities. Conditional on jurisdiction size, public policy choices are thus predicted to depend on the shape of a jurisdiction's firm size distribution, with more business-friendly policies being implemented if economic activity is concentrated in a small number of entities. We assess this prediction in the context of the German local business tax. The results

indeed point to an inverse relationship between the concentration of economic activity and communities' local business tax choices. The effect is statistically significant and quantitatively relevant, suggesting that the rising importance of large businesses may trigger shifts towards a more business-friendly design of statutory tax policies.

 [Riedel-Large and Influential-166.pdf](#)

Foreign Bidders Going Once, Going Twice... Protection in Government Procurement Auctions

Ron Davies¹, Matt Cole²

¹University College Dublin, Ireland; ²Florida International University

Until recently, government procurement bidding processes have generally favored domestic firms by awarding the contract to a domestic firm even if a foreign firm tenders a lower bid, so long as the difference between the two is sufficiently small. This has been replaced by an agreement abolishing this practice. However, the presence of other trade barriers, such as tariffs, can continue to disadvantage foreign firms. We analyze the bidding strategies in such a game and show that when domestic profits are valued, tariffs will be used to discriminate against foreign firms. Furthermore, we find that optimal tariffs can be more protectionist than the optimal price preference, resulting in lower expected domestic welfare and total surplus.

 [Davies-Foreign Bidders Going Once, Going Twice Protection-321.pdf](#)

Dictators don't compete: Autocracy, democracy and tax competition

Philipp Genschel¹, Hanna Lierse², Laura Seelkopf³

¹European University Institute, Italy; ²Jacobs University Bremen, Germany; ³University of Bremen, Germany

It pays to be a tax haven. Countries such as Ireland have become rich by exploiting their 'advantage of smallness' in international tax competition. Others emulate this apparent success by cutting taxes on footloose international capital. Yet not all small states follow this strategy. Why not? We argue it is politics. Standard models of tax competition implicitly assume that countries engaging in tax competition are democratic. Yet over forty percent of countries world-wide are not. As we explain theoretically, and show empirically, autocracies are less likely to engage in tax competition. First, they have less to gain as they attract less foreign capital than democracies at every given tax rate. Second, autocratic leaders have fewer incentives to realize potential gains from tax competition. Investigating the corporate tax policies of 117 countries from 1999 to 2011, we find supporting evidence that democracies react stronger to tax competition than autocracies.

 [Genschel-Dictators dont compete-201.pdf](#)

3:30pm - 5:30pm
Room 4047

Households and Family Outcomes

F

Estimation of Male and Female Labour Supply Elasticities Using Income Tax Free and Bracket Reforms

Panayiota Lyssioutou, Elena Savva

University of Cyprus, Cyprus

The evidence on males' labour supply response to tax reforms is scarce since tax reforms affected mainly females. This paper uses changes in income tax rules which decreased the marginal tax rates for both men and women. The reforms involve changes in tax free income and expansion of income tax brackets, in an individual tax system, and provide us with an exogenous variation in net wages and non-labour income to identify labour supply elasticities for both men and women. We adopt the identification strategy proposed by Blundell et al. (1998) and find that, while both married men and married women respond positively to increases in net wages and negatively to increases in non-labour income, the female's uncompensated wage elasticities and non-labour income elasticities are twice as large as those of married males. The evidence is useful for countries reviewing their tax systems to create work incentives.

 [Lyssioutou-Estimation of Male and Female Labour Supply Elasticities Using Income Tax Free and Bracket.pdf](#)

Co-residential Eldercare and Female Labor Market Decisions

Nicole L Hair

University of Michigan, United States of America

This paper examines the labor market outcomes of women co-residing with a disabled parent or parent-in-law. Because the vast majority of women providing this form of eldercare

are still in their working years, informal care responsibilities may involve considerable opportunity costs. Using the Panel Study of Income Dynamics, I construct a longitudinal dataset documenting the labor market and co-residential eldercare experiences of sample women over 25 years. On average, I find that women co-residing with a disabled elder are less likely to engage in labor market work. However, responses vary over the life course. Co-residence prior to age 40 is associated with a 9 percentage point reduction in the likelihood of employment, an effect size twice that found for women over 50.

 [Hair-Co-residential Eldercare and Female Labor Market Decisions-425.pdf](#)

Career, Private Life, and Well-Being among College-educated West German Women

Marianna Schaubert

University of Wuppertal, Germany

This paper is about the compatibility of a career and a private life among college-educated West German women. More precisely, it explicitly investigates the degree to which the concurrence of career and cohabitation or motherhood can affect women's well-being. I attempt to overcome the difficulties associated with estimating this causal relationship by using fixed-effects models. Thus, I exploit the variation over time for each individual woman in order to estimate the interaction effect of career and private life on life satisfaction.

The results suggest that only a small fraction of women achieve career and cohabitation or motherhood simultaneously. More importantly, the estimates do not show greater life satisfaction for those women who have both – a career and a private life. To the best of my knowledge, no previous study has examined this link between career and cohabitation or motherhood for female graduates in Germany.

 [Schaubert-Career, Private Life, and Well-Being among College-educated West German Women-465.pdf](#)

Labor Force Participation and Household Economies of Emigrant Couples

Munk Martin D.¹, Till Nikolka², Poutvaara Panu^{2,3,4}

¹Aalborg University, Centre for Mobility Research, Denmark; ²Ifo Institute, Germany; ³University of Munich, Germany; ⁴CESifo and IZA, Germany, CReAM, United Kingdom

We study the impact of international migration on labor force participation and household economies of couples, based on a survey of Danish emigrants. We find that migration is associated with reduced female labor force participation, especially among couples migrating to the United States. Most couples that had separate economies in Denmark have joint economies abroad. Usually, the male partner contributes more. Switching towards traditional male breadwinner model is particularly strong among couples with children and with the male being highly educated.

 [Martin D.-Labor Force Participation and Household Economies-576.pdf](#)

3:30pm - 5:30pm
Ui Chadhain Theatre

Income Shifting and Transfer Pricing

F

Tax-Induced Transfer Pricing and Corporate Agency Costs

Marko Koethenburger

ETH Zurich, Switzerland

This paper analyzes the implications of tax-induced transfer pricing when corporate agency problems between the headquarter and

subsidiary managers exist. Managers provide inputs which enhance the quality of local production. The way transfer prices for the internal trade of goods and services are set influences the incentives of managers to act in the interest of the firm. (De)Centralization of transfer pricing differently affects incentives of both managers and the way governments strategically choose national tax policies in response to tax-induced transfer pricing. We relate the analysis to the current OECD Base Erosion and Profit Shifting (BEPS) initiative.

[Koethenbuerger-Tax-Induced Transfer Pricing and Corporate Agency Costs-538.pdf](#)

Pricing the Transfer of Intellectual Property as a Problem of Second-Best Tax Policy

Wolfram F. Richter, Markus Breuer

TU Dortmund University, Germany

The adequate pricing of intellectual property ("IP") for tax reporting is a largely unsettled issue. Transactional profit methods are on the rise although only rated as "methods of last resort" by the OECD. This paper focuses on regulated profit splitting and compares this policy regime with one allowing multinationals to price IP freely subject to the constraint that the price used for tax reporting is also used internally. It is shown that such uniform per-unit pricing is dominated by regulated profit splitting in global efficiency. The model is one of second best. It allows for internationally differentiated tax rates and non-deductible effort costs in the production of know-how.

[Richter-Pricing the Transfer of Intellectual Property as a Problem of Second-Best Tax Policy-143.pdf](#)

Income Shifting under Losses

Arnt Ove Hopland¹, Petro Lisowsky², Mohammed Mardan³, Dirk Schindler¹

¹Norwegian School of Economics, Norway; ²University of Illinois at Urbana-Champaign, USA; ³ETH Zurich, Switzerland

This paper examines the flexibility of multinational firms to use income-shifting strategies to react to operating losses. We develop an analytical model that considers how affiliate losses can be adjusted by using the transfer prices of (in-)tangible assets, as well as internal debt shifting, either by ex-post or ex-ante income shifting. Our model predicts that multinationals report lower profits (losses) when running profits (losses) compared to domestic firms. It also suggests that under ex-post income shifting, loss affiliates have lower transfer prices and internal leverage than profitable affiliates. Under ex-ante income shifting, affiliates feature the same transfer prices and internal capital structure. Using data on direct transfer payments and internal debt of Norwegian affiliates, we find that under losses, transfer pricing gives substantial flexibility to adjust income shifting ex post. In contrast, we do not find evidence for flexibility in the use of internal debt to shift income ex post.

[Hopland-Income Shifting under Losses-157.pdf](#)

International Profit Shifting through Royalty Payments

Olena Dudar^{1,2}, Christoph Spengel², Johannes Voget²

¹Centre for European Economic Research (ZEW), Germany; ²University of Mannheim, Germany

The main purpose of this paper is to test whether multinational enterprises use intangibles as an important profit shifting channel by empirically analysing the relationship between taxation and bilateral royalty flows. We employ the OECD data on 3,660 country-pairs for the time period of 1990-2012 and apply the Poisson pseudo-maximum likelihood estimator in a fixed-effects framework. The main results point to a negative impact of taxation on bilateral royalty flows. For tax policy considerations, the paper provides various insights to the ongoing work on BEPS by the G20, the OECD, and the European Commission. For example, we find that such reform suggestions of the OECD Action Plan as an enforcement of the Nexus Approach, as well as an introduction of strict Controlled Foreign Company rules and transfer pricing regulations are likely to reduce international royalty flows.

[Dudar-International Profit Shifting through Royalty Payments-210.pdf](#)

3:30pm - 5:30pm
Room 5033

Labour Markets II

F

Common Labor Market, Attachment and Spillovers in a Large Federation

Emilson Caputo Delfino Silva¹, Vander Mendes Lucas²

¹University of Alberta, Canada; ²University of Brasilia, Brazil

In this paper, we extend the home-attachment model to a setting with multiple (more than two) regions and consider non-cooperative policy making for provision of different types of federal public goods in the presence of a common labor market. Migration and working place choices are independent. We show that the optimal redistributive policy implemented by the central government always yields equalization of private consumption levels across regions. This result holds whether or not policy makers are able to anticipate migration responses to their policy choices. In the decentralized leadership games, regional governments make contributions at levels that fully internalize externalities.

[Silva-Common Labor Market, Attachment and Spillovers in a Large Federation-109.pdf](#)

Friends and Foes at Work: Assigning Teams in a Social Network

Thomas Daske

Max-Planck-Institute for Tax Law and Public Finance, Germany

In many firms, production involves the subdivision of staff into teams. Moral hazard in teams can be overcome or made worse by the interpersonal relationships of team members. I investigate how the subdivision of staff into teams should account for the workers' social network of interpersonal relationships. Considering piece rate compensation for teams, I identify rules for efficient team assignment. These rules vary with the structure of individual effort costs. For convex (concave) marginal costs of effort, team assignment follows a maximin (maximax) rule with regard to the team members' willingness to cooperate. The decision on who teams up with whom should not simply be left to the workers. In asymmetric social networks, the preferences of staff for team compositions can collide with efficient production. A delegation mechanism that ensures efficient team assignment does not exist.

[Daske-Friends and Foes at Work-395.pdf](#)

Job search expectations

Sascha Drahs¹, Luke Haywood¹, Amelie Schiprowski^{1,2}

¹DIW Berlin, Germany; ²IZA Bonn, Germany

We introduce subjective expectations about the labour market in a job search model. We show how biases in expectations over the wage distribution affect optimal search intensity and duration of unemployment. Optimistic individuals search more but reject more offers, with an ambiguous effect on unemployment duration. Based on extensive survey data from Germany, we confirm previous evidence that the unemployed are overly optimistic. We show how the simple search model with subjective wage expectations can be empirically estimated using panel data including information on expectations. Estimation is work in progress.

[Drahs-Job search expectations-551.pdf](#)

Wage setting and tax incidence

Vidar Christiansen

University of Oslo, Norway

Optimal tax analysis has shown little interest in various wage setting regimes. While a main purpose of tax policy is to affect the after-tax wage distribution, before-tax wages may respond in various ways. This paper briefly surveys a range of wage-setting regimes and then focuses on wage setting influenced by trade unions. In a unionised economy some degree of wage compression is usually achieved even without the contribution of tax policy, but is influenced by the taxes set by the government. Union responses to taxes will then strongly affect the tax incidence. In some sectors a rent is created and workers and owners bargain over the division of the rent, presumably being influenced by how rent and wages are taxed. Policy makers should take the wage responses to taxes into account. The paper takes some steps towards examining how to allow for these effects in an optimal tax context.

[Christiansen-Wage setting and tax incidence-392.pdf](#)

3:30pm - 5:30pm
Room 5052


Redistribution II F

On the optimal lifetime redistribution and equality of opportunities

Terhi Helena Ravaska¹, Matti Tuomala¹, Sanna Tenhunen²

¹University of Tampere, Finland; ²ETK

In this paper we examine the aspects of equality of opportunity framework (EO) to optimal lifetime redistribution policy. The dynamic complications are avoided by studying the optimal redistribution within a cohort. We characterise optimal redistribution policy when there are differences not only in individuals' productivities but also in their tastes towards the timing of consumption. In the spirit of Roemer (1998) and Van de Gaer (1993) our approach applies a compromise between the principle of compensation and the principle of responsibility. To gain a better understanding, we examine numerically the properties of an optimal lifetime redistribution policy. We find support for non-linear tax/pension program in which some types of individuals are taxed while some are subsidized. Numerical simulations show quite big differences in terms of the levels of marginal tax rates between utilitarian and EO- cases.

 [Ravaska-On the optimal lifetime redistribution and equality-324.pdf](#)

Does the choice of well-being measure matter empirically? An illustration with German data

Koen Decancq¹, Dirk Neumann²

¹CSB - University of Antwerp, Belgium; ²CORE - Université catholique de Louvain, Belgium

We discuss and compare five measures of individual well-being, namely income, an objective composite well-being index, a measure of subjective well-being, equivalent income, and a well-being measure based on the von Neumann-Morgenstern utilities of the individuals. After examining the information requirements of these measures, we illustrate their implementation using data from the German Socio-Economic Panel (SOEP) for 2010. We find sizeable differences in the characteristics of the individuals identified as worst off according to the different well-being measures. Less than 1% of the individuals belong to the bottom decile according to all five measures. Moreover, the measures lead to considerably different well-being rankings of the individuals. These findings highlight the importance of the choice of well-being measure for policy making.

 [Decancq-Does the choice of well-being measure matter empirically An illustration with German data-239.pdf](#)

The Redistributive Effects of Transfer Programs: A Semiparametric Approach

B. Cecilia Garcia-Medina

Banco de Mexico, Mexico

I empirically examine how changes in the receipt of social program benefits associated to reforms in government transfer programs have affected the Canadian income distribution over the 1996-2006 period. I apply nonparametric decomposition methods by reweighting kernel density estimators of the income distribution with propensity score functions that reflect changes in the probability of receiving program benefits from 1996 to 2006. This method enables me to identify the redistributive role played by transfer programs that were contemporaneously changed, and where in the income distribution programs have their greatest effects. I find that each program influences different regions of the distribution, and that reforms to the Social Assistance program have reduced its redistributive effectiveness, whereas Child Benefits, Employment Insurance and Old Age Security are more redistributive than in 1996.

 [Garcia-Medina-The Redistributive Effects of Transfer Programs-293.pdf](#)

Modelling Indirect Taxation Changes: Revenue & Distributive Impacts in the Republic of Ireland

Micheal Collins

Nevin Economic Research Institute (NERI), Ireland

Changes to indirect taxes are a regular feature of annual fiscal policy announcements. Despite this, the distributive impacts of these changes (either ex ante or ex post) are rarely considered – something that is in contrast to accompanying budgetary changes to direct taxes or transfers.

This paper estimates the revenue raised and distributive impact of possible policy changes to five key areas of indirect taxation in Ireland: VAT, fuel excises, insurance levies, tobacco excises and alcohol excises. In doing so the paper examines how these changes impact across the income distribution alongside estimating the average household cost/gain and the full year taxation revenue effect. While the paper models increases to each of these indirect taxes, a similar (inverse) distributive impact emerges when reductions to these taxes are examined.

 [Collins-Modelling Indirect Taxation Changes-231.pdf](#)

3:30pm - 5:30pm
Room 5039

Social Capital and Tax Morale F

Social Capital and Economic Growth: Insights from Spying in East Germany

Andreas Lichter^{1,2}, Max Löffler^{2,3}, Sebastian Sieglöch^{1,3,4}

¹IZA; ²University of Cologne; ³ZEW; ⁴University of Mannheim

This paper estimates the causal effect of government monitoring on social capital and economic performance by using regional variation in surveillance at the time of the socialist German Democratic Republic. Accounting for non-random allocation of spies into regions, we provide evidence of long-lasting negative effects of mass surveillance on economic performance. We show that these negative economic effects can be attributed to persistently lower levels of social capital.

 [Lichter-Social Capital and Economic Growth-261.pdf](#)

Trust in Government and the Willingness to Pay Taxes in Transition Countries

John Edwin Anderson

University of Nebraska, United States of America

This paper examines citizen trust in government, willingness to pay taxes, and desire for redistribution in transition countries. A theoretical model of trust in government is developed explaining willingness to pay (WTP) for public goods and empirical models are estimated for improved public education, improved public health system, combating climate change, helping the needy, and income redistribution. Data are from the European Bank for Reconstruction and Development's Life in Transition Survey. Results confirm the theoretical model, with trust in government having a significant positive effect on WTP for public goods. Differences are found, however, among government institutions and public goods. Income is a significant factor contributing to trust in all social institutions, including government. Higher income citizens have greater WTP for public goods, including income redistribution. The possibility of upward mobility hypothesis is confirmed, with citizens expecting future income to be higher than current income being less supportive of redistribution.

 [Anderson-Trust in Government and the Willingness to Pay Taxes in Transition Countries-267.pdf](#)

Competition, Income Distribution, and the Middle Class: An Experimental Study

Stefan Traub¹, Bernhard Kittel², Fabian Paetzel¹

¹University of Bremen, Germany; ²University of Vienna, Austria

We study the effect of competition on income distribution by means of a two-stage experiment. Heterogenous endowments are earned in a contest, being followed by a surplus-sharing task. The experimental test confirms our initial hypothesis that the existence of a middle class is as effective as institutional hurdles in limiting the power of the less able in order to protect the more able players from being expropriated. Furthermore, majoritarian voting with a middle class involves less bargaining impasse than granting veto rights to the more able players and, therefore, is more efficient.

 [Traub-Competition, Income Distribution, and the Middle Class-491.pdf](#)

Tax Aggressiveness and Tax Morale

Danilo Zehner

University of Frankfurt, Germany

This paper investigates the link between tax morale and tax aggressiveness of firms. Using financial data on family-owned and non-family-owned firms and data on the acceptability of tax cheating, I find that family-owned firms react stronger to social tax norms than non-family-owned firms. I interpret this as evidence that personal motives of owners play an important role in corporate tax decisions. These motives include (1) the fear of reputational damage on a personal level and (2) personally held beliefs of the owners and the ability to apply these to the actions of firms. As an additional test for the first channel I investigate whether tax payments are affected by the fact that firms are named after their owners. Indeed, I find that shared names increase tax payments in family and non-family firms. In family firms this could indicate that the fear of reputational damage plays a role in tax decisions.

 [Zehner-Tax Aggressiveness and Tax Morale-385.pdf](#)

3:30pm - 5:30pm
Room 4050B

Social Norms and Trust

F

Parental upbringing and law enforcement: complements or substitutes?

Aart Gerritsen¹, Thomas Daske¹, Vai-Lam Mui²

¹Max Planck Institute for Tax Law and Public Finance; ²Monash University

Law-abiding behavior is widely considered to depend on social norms, as well as on the relative monetary returns to breaking or obeying the law. We study one possible determinant of such social norms by considering the economic incentives of parents to raise their children as law-abiding citizens. Altruistic parents rationally expect themselves to bail out their children when they are caught breaking the law. Children might therefore free-ride on their parents' altruism by overengaging in criminal activity. This provides an economic rationale for parents to instill a social norm of law abidance in their children. We find that the effect of enforcement policy on norm formation strongly depends on the nature of the policy. Higher detection rates reduce children's incentives to break the law, thereby substituting for and crowding out social norms. Tougher punishment increases the need for parental support when children are caught, thereby crowding in social norms.

 [Gerritsen-Parental upbringing and law enforcement-412.pdf](#)

Collusive Tax Evasion and Social Norms

Martin Abraham, Friedemann Richter, Kerstin Lorek, Matthias Wrede

University of Erlangen-Nürnberg, Germany

Although collusive tax evasion by buyers and sellers of commodities and also by employers and employees is widespread all over the world, it has rarely been analyzed in the tax evasion literature. To fill this gap and to compare collusive tax evasion with independent tax evasion, this paper develops a simple non-cooperative game-theoretic model and confirms the model's predictions in a laboratory experiment.

Because collusive tax evasion involves social interaction, this paper focuses on the effect of social norms and theoretically and empirically demonstrates that the tax compliance norm has a stronger negative effect on the magnitude of

collusive tax evasion than on independent tax evasion. The reason for this result is that in a collusive tax evasion game with multiple equilibria social norms act as an equilibrium selection device, whereas social norms need to be internalized to change the behavior of taxpayers who evade taxes unobservedly.

 [Abraham-Collusive Tax Evasion and Social Norms-335.pdf](#)

Biased Perceptions of Inequality and Trust. Theoretical Analysis and Empirical Results

Markus Knell, Helmut Stix

Oesterreichische Nationalbank, Austria

This paper studies the impact of income inequality on trust from a theoretical and an empirical perspective. The model is built on the assumption that trust (defined as expected trustworthiness) is influenced by individual perceptions of inequality. These perceptions might have a social and a geographical bias, i.e. individuals will put a higher weight on others that have a similar social background and that live in greater local proximity. We derive several implications of the model that are then tested by using Austrian survey data. We find that trust is related to expected trustworthiness, that trust is influenced by individual perceptions of inequality and that these perceptions involve a considerable social bias.

Subjective measures of inequality have more explanatory power for trust than objective measures (like the Gini coefficient) and the same is true for measures of the ethnic mix.

 [Knell-Biased Perceptions of Inequality and Trust Theoretical Analysis and Empirical Results-263.pdf](#)

Promoting cooperation through strategic complementarity

Olli Lappalainen

University of Turku, Finland

We study experimentally a team production game in which returns from

the private project have diminishing marginal benefits and the contributions to the joint project exhibit pairwise strategic complementarities. As a control we use a public good game with an identical private production technology, but standard public good aggregation. In addition to the aggregation technology, we manipulate the group size variable. A significant over-contribution is observed in both settings when the group size is 5. The rate of over-contribution is much higher under the complementary technology, but as predicted by theory, it drops drastically when the group size is reduced. As a byproduct, our experiment provides empirical evidence that the group size effect is also present in a public good game with an interior equilibrium. The results can be utilized as a baseline study for the empirical research investigating the connection between Bonacich centrality and Nash equilibria in networks.

 [Lappalainen-Promoting cooperation through strategic complementarity-575.pdf](#)

3:30pm - 5:30pm
Boardroom 2026

Taxation and Capital Structure

F

Business Taxation and Its Impact on Capital Structure: Evidence from Italian Banks

Giorgia Maffini¹, Steve Bond¹, Andrea Nobili², Giacomo Ricotti³, Kate Ham¹

¹University of Oxford; ²Italian Banking Association; ³Bank of Italy

This paper explores the effect of taxation on the capital structure of banks. We exploit exogenous regional variations in the rate of the Italian tax on productive activities (IRAP) using administrative, confidential data provided by the Bank of Italy. We find that taxation affects leverage of smaller banks but not of banks in the top quartile of total assets. Overall, banks with higher leverage do not respond to tax. We control for regulatory capital requirements using a new measure of leverage for each bank-year observation and the results do not change qualitatively. Maximum leverage only affects leverage of larger banks, those for which there is no tax effect. Additionally, the heterogeneity in leverage levels across banks of different sizes disappears when controlling for maximum leverage. These results suggest that for banks with higher leverage, the regulatory requirements are binding and therefore, they are less sensitive to tax.

 [Maffini-Business Taxation and Its Impact on Capital Structure-421.pdf](#)

Corporate Taxation and Financing Decisions: Evidence from the Italian ACE Reform

Antonella Caiumi¹, Alessandro Zeli²

¹ISTAT, Italy; ²ISTAT, Italy

This paper undertakes a microeconomic evaluation of the effect of different policy options in addressing corporate tax bias for Italy. We focus on the recently implemented incremental ACE regime which grants a notional return on equity against corporate profits. The Italian CIT still holds elements of a comprehensive business income tax (CBIT) because of a limitation on interest deductibility. We document how taxation affects the capital structure of Italian corporation using corporate tax returns and accounting data. Based on panel and within-groups regressions we find a statistically and economically relevant effect of taxation on capital structure over time. However, the new ACE had not a significant impact on companies' leverage in the first two post-implementation years. The estimated debt-equity elasticity is low but significant for SMEs, close to zero and not significant for larger firms.

[Caiumi-Corporate Taxation and Financing Decisions-418.pdf](#)

The impact of full and incremental ACE systems on the cost of capital

Tanja Kirn

University of Liechtenstein, Liechtenstein

Several countries have implemented full or incremental ACE systems. This raises the question, how those systems impact the cost of capital and hence the optimal capital structure. This paper extends the results of Modigliani and Miller (1958) to determine the cost of capital with an ACE in the case of uncertainty. The comparison between full and incremental ACE systems reveals that the cost of debt in the case of a full ACE is more responsive to a change in market debt-equity ratio. The marginal analysis elucidates that there is no trade-off between the tax rate and the eligible share of equity capital in incremental ACE systems. This finding is relevant for the tax policy discussion in many countries that have introduced or consider introducing a full or an incremental ACE.

[Kirn-The impact of full and incremental ACE systems on the cost of capital-457.pdf](#)

3:30pm - 5:30pm
Room 4050A

Taxing Small Businesses

F

Tax bunching by owners of small corporations

Leon Bettendorf, Arjan Lejour, Maarten van 't Riet

CPB, Netherlands, The

In the Netherlands owners of small corporations face taxation of corporate, labour and capital income. Taxation of the latter may be deferred. We study their options for income shifting using bunching techniques. Based on individual tax records over the period 2007-2011 we report three main findings. The first is that the distribution of gross wage income strongly peaks at the legal 'minimum' level. Second, taxable labour income bunches at the cut-offs of the tax brackets. The elasticity of taxable income at the top tax cut-off ranges from 0.06 to 0.11. Finally, we show that distributed profits strongly responded to the temporary tax cut from 25 to 22% in 2007, which doubled tax revenues on dividends. We reconfirm the importance of intertemporal income shifting for business owners.

[Bettendorf-Tax bunching by owners of small corporations-270.pdf](#)

The Deadweight Loss from Taxing Small and Medium-Sized Enterprises

Hendrik Vrijburg

Erasmus University Rotterdam, Netherlands, The

This paper studies the distortionary effect of the Corporate Income Tax on Small and Medium-Sized Enterprises. To this end I develop a stylized model that allows for both unconstrained and equity constrained firms. Thereafter, I use micro-data from Corporate Income Tax Returns in the Netherlands to study the effect of the Corporate Income Tax rate structure on both investment decisions and debt-equity choices of Small and Medium-Sized Enterprises. Identification comes from changes in both tax rates and tax brackets in the period 2004 till 2009. The results suggest that the leverage decision of Small and Medium-Sized Enterprises is mainly driven by investment considerations, I do not find evidence for Small and Medium-Sized Enterprises using their leverage to reduce their tax bill.

[Vrijburg-The Deadweight Loss from Taxing Small and Medium-Sized Enterprises-462.pdf](#)

Income shifting between personal and corporate income tax bases

Byung Mok Jeon

Korea Institute of Public Finance, Korea, Republic of (South Korea)

This paper analyzes the shifting of tax base between individual and corporate income tax. We examined the differences in the personal income tax burden between personal business entities and incorporated ones in order to identify the existence of any economic incentives on business form choice. The results show that while tax burden were fluctuated by income type, the mixed form of compensation features the lowest tax burden in the over-100 million won bracket. In the case of owner-managed corporations, capital was seen to be shifted to the corporation as income tax gaps between personal and corporate tax widened. Every increase of 1 percent point in the tax rate gap resulted in 2.89 percent growth of assets among owner-managed corporations.

[Jeon-Income shifting between personal and corporate income tax bases-473.pdf](#)

The effect of VAT threshold on the behavior of small businesses: Evidence and implications

Tuomas Matikka, Jarkko Harju, Timo Rauhanen

VATT, Finland

We study the effects of value-added tax (VAT) threshold on the behavior of small firms using register data on the universe of Finnish firms. We find sizable bunching just below the sales-based VAT threshold (8,500 euros). This implies that small firms actively avoid VAT liability. We find that even considerable reductions in the VAT rate at the threshold do not affect the extent of the bunching response. This indicates that compliance costs of VAT are crucial for small firms. In addition, we find no explicit evidence of tax avoidance or evasion, which suggests that firms respond by reducing output. Also, we find that bunching behavior is very permanent, which implies that the VAT threshold decreases the growth of small firms.

[Matikka-The effect of VAT threshold on the behavior of small businesses-254.pdf](#)

3:30pm - 5:30pm
Ed Burke Theatre

Women and Public Policies

F

Female employment and pre-kindergarten: on the unintended effects of an Italian reform

Francesca Carta, Lucia Rizzica

Bank of Italy, Italy

This paper analyses the relationship between the availability of low cost childcare services and maternal labour supply in Italy. By means of a job search model we show that, when market childcare is needed both when looking for a job and when working, a price reduction of childcare boosts maternal labour market participation, but has an ambiguous effect on the reservation wage and, thus on the probability of being employed. Exploiting the discontinuity in the rule that determines children's eligibility to pre-kindergarten in Italy, we test the predictions of our model through a policy reform which expanded access to kindergarten. Our results show that the possibility of anticipating the child's entry to kindergarten, a much cheaper alternative to daycare, increased both participation to the labour market and the employment probability of mothers. We show that the latter effect is largely driven by a decrease in the reservation wage.

[Carta-Female employment and pre-kindergarten-186.pdf](#)

The joint decision of labour supply and childcare in Italy under costs and availability constraints

Francesco Figari¹, Edlira Narazani²

¹University of Insubria, Italy and ISER University of Essex; ²University of Insubria and University of Turin, Italy

It is widely recognized that childcare has important pedagogical, economic and social effect on both children and parents. This paper is the first attempt to estimate a joint structural model of labour supply and childcare decision applied to Italy. Such an approach is particularly informative given that allows one to estimate the changes in family choices under different policy simulation scenarios.

We analyse how maternal labour supply and childcare usage can be affected by relaxing the existing constraints in terms of childcare availability and costs by considering public, private and informal childcare, with related imputed availability and costs and their interaction with the whole tax-benefit system.

Preliminary results suggest that Italian households might alter their childcare and labour supply decision if the coverage rate of formal childcare increases, in particular if the increase is substantial as it is the case to reach European target in the Southern regions.

 [Figari-The joint decision of labour supply and childcare-269.pdf](#)

Costs and benefits of the Italian early childcare system

Daniela Del Boca, Giuseppe Sorrenti, Chiara D Pronzato

University of Turin & Collegio Carlo Alberto, Italy

Our study extends the analysis of public child care to important characteristics rarely investigated before: the selection criteria used by local governments to assign slots to potential demanders. In Italy, public child care coverage is only about 17.5% and the number of applications overcomes the number of slots in childcare services. In conditions of excess demand, municipalities introduce selection criteria to give priority to households for which public child care access is more valuable. We explore through simulations the consequences of introducing different selection criteria for children, for families and also for municipalities, using a sample of households with children below 3 years of age (IT-SILC), and the selection criteria used by six representative Italian municipalities.

 [Del Boca-Costs and benefits of the Italian early childcare system-290.pdf](#)

Maternal Employment and Childhood Overweight in Germany

Sophie-Charlotte Meyer

University of Wuppertal, Germany

The purpose of this study is to identify the effect of maternal employment on childhood overweight in Germany using two sets of representative micro data. Moreover, we explore potential underlying mechanisms that might explain this relationship. In order to address the selection into maternal full-time employment, we use an instrumental variable strategy exploiting the number of younger siblings in the household as an instrument. While the OLS model suggests that maternal full-time employment is related to a 5 percentage point higher probability of the child to be overweight, IV estimates indicate a 25 percentage points higher overweight probability due to maternal full-time employment. Exploring various possible pathways, we find that maternal employment is associated with unhealthy dietary and activity habits which might explain the positive effect of maternal employment on child overweight to some extent. Several sensitivity analyses confirm the robustness of our findings.

 [Meyer-Maternal Employment and Childhood Overweight in Germany-389.pdf](#)

5:30pm - 6:30pm

Ed Burke Theatre

Date: Sunday, 23/Aug/2015

9:00am - 11:00am

Beckett Theatre 2

IIPF Members GA: General Assembly of IIPF Members

Behavioral Public Economics

G

Asymmetric labor supply responses to tax and wage rate changes

Philipp Doerrenberg, Denvil Duncan, Max Loeffler

ZEW Mannheim, Germany

The literature on labor supply elasticities w.r.t. taxes and wages typically assumes that responses to wage/tax increases and wage/tax decreases are symmetric. However, a large behavioral literature has established that individuals are loss averse and perceive changes in the loss vs gain domain differently. This result may have implications for labor supply responses but we are not aware of any evidence on the symmetric effects of wage/tax increases and decreases. This paper aims to fill this gap. Our precise research question is: does labor supply respond symmetrically to increases and decreases in wages and tax rates? We aim to overcome any empirical challenges using two strategies. First, we implement a randomized experiment in the online labor market Mechanical Turk to study if wage increases and decreases have symmetric labor supply effects. Second, we run laboratory experiments to study the same question in the context of taxation.

 [Doerrenberg-Asymmetric labor supply responses to tax and wage rate changes-131.pdf](#)

A Glance into the Tunnel: Experimental Evidence of Expectations Versus Comparison Considerations

Kai A. Konrad, Harald W. Lang, Florian Morath

Max Planck Institute for Tax Law and Public Finance, Germany

Learning that others earn more may reduce individual well-being but can also be informative about the own income prospects. This paper provides experimental evidence that separates direct effects of income comparison on well-being and informational effects from observing changes in the income of others. In an environment of uncertainty about the own income we find that both the direct comparison effects and the informational effects are asymmetric. Individual beliefs about the own income are adjusted downwards when observing that others are likely to earn less but do not change significantly when observing that others are likely to earn more. Individual satisfaction decreases when observing that others are likely to earn more but does not change significantly when observing that others are likely to earn less. Overall, individuals are more reactive to "bad news" than to "good news".

 [Konrad-A Glance into the Tunnel-274.pdf](#)

Preference Identification Under Inconsistent Choice: A Reduced-Form Approach

Jacob Goldin¹, Daniel Reck²

¹Princeton University, United States of America; ²University of Michigan, United States of America

In many settings seemingly arbitrary features of a decision may nonetheless affect choice. We develop an empirical framework to recover ordinal preference information from binary choice data characterized by *framing effects*. Plausible restrictions of varying strength permit either partial- or point-identification of preferences for frame insensitive decision-makers. Recovering population preference requires understanding the empirical relationship between decision-makers' preferences and their susceptibility to framing. We develop tools for studying this relationship and illustrate them with data on automatic enrollment into pension plans. The results suggest 60 percent of default sensitive employees prefer enrollment, but defaults of non-enrollment may be optimal for younger, lower-income employees.

 [Goldin-Preference Identification Under Inconsistent Choice-140.pdf](#)

Hidden Baggage: Air Traveler Responses to Add-On Taxes and Fees

Sebastien J Bradley¹, Naomi E Feldman²

¹Drexel University, United States of America; ²Federal Reserve Board of Governors, United States of America

We examine the impact on air traveler demand of an enforcement action issued by the U.S. Department of Transportation (DOT) in 2012 requiring that domestic air carriers and online travel agents incorporate all mandatory taxes and fees in their advertised fares. Consistent with the emerging literature on tax salience, we find quasi-experimental evidence that the more prominent display of tax-inclusive prices is associated with a reduction in passenger volume along more heavily-taxed international itineraries. This reflects a combination of aggregate demand and cross-itinerary substitution effects, the latter of which manifest themselves through a decrease in average per-passenger tax revenue and number of flight segments connecting specific origin and destination pairs. More moderate sensitivity to ticket taxes on inbound flights in the post-reform period is consistent with ticket-buyers being less likely affected when purchasing tickets through non-U.S.-facing websites, which were not explicitly affected by the DOT rules.

 [Bradley-Hidden Baggage-334.pdf](#)

9:00am - 11:00am
Room 4050B

Conflict and Nationalism G

Balance of power and the propensity of conflict

Luisa Herbst, Kai A. Konrad, Florian Morath

Max Planck Institute for Tax Law and Public Finance, Germany

We study the role of an imbalance in fighting strengths when players bargain in the shadow of conflict. Our experimental results suggest: In a simple bargaining game with an exogenous mediation proposal, the likelihood of conflict is independent of the balance of power. If bargaining involves endogenous demand choices, however, the likelihood of conflict is higher if power is more imbalanced. Even though endogenous bargaining outcomes reflect the players' unequal fighting strengths, strategic uncertainty causes outcomes to be most efficient when power is balanced. In turn, the importance of exogenous mediation proposals depends on the balance of power.

 [Herbst-Balance of power and the propensity of conflict-312.pdf](#)

Dynamic Dissolutions and Unifications

Christopher James Ellis

University of Oregon, United States of America

We reappraise the results of the effects of political regime type on the size and number of countries in a dynamic model. We find that in several circumstances the results found in static models are precisely reversed. Furthermore, we show that there can be hysteresis in national boundaries, for example if a colonial power had created countries that were suboptimal at the time of creation they may have a tendency to persist.

 [Ellis-Dynamic Dissolutions and Unifications-286.pdf](#)

The Value of NATO Option for a New Member

Vesa Lennart Kanniainen¹, Staffan Ringbom²

¹University of Helsinki, Finland; ²Hanken, Helsinki, Finland

The paper introduces a welfarist approach to the national safety of a country with membership in a defense alliance as an option. The members are heterogeneous and subjects of a country-specific safety classification. There are two public goods, the domestic military budget and the incremental safety provided by the membership in the alliance. A sufficient condition is stated for the non-membership. Necessary conditions are stated for a positive option value of the membership. Several adverse incentive effects shaping the option value are identified. The cost of participation is determined in the spirit of the median voter theorem. The equilibrium is shown to be of two potential types, a stable alliance equilibrium with a positive mass or a degenerate one with one member only. The driving force in the adjustment of the coalition size is the size of alliance relative to the safety class of the median voter.

 [Kanniainen-The Value of NATO Option for a New Member-181.pdf](#)

Migrating Natives and Foreign Immigration

Henrik Andersson¹, Matz Dahlberg¹, Heléne Lundqvist²

¹Uppsala University, Sweden; ²Stockholm University, Sweden

In this paper we investigate the possibility of so called "white flight" or "white avoidance" in a Swedish context. Specifically, we ask if native Swedish-borns tend to move away from (white flight) or avoid moving in to (white avoidance) neighbourhoods with high shares of immigration.

For our empirical strategy, we use neighbourhood variation in inflows of immigrants to study native in- and outmigration. That is, we use geo-coded register data to regress the domestic neighbourhood outflow and inflow of natives on the neighbourhood level of immigration. To account for possible endogeneity problems we apply 2SLS, using a combination of a shift sharing instrument, exogenous international shocks and several socioeconomic and demographic covariates.

The paper contributes to the research on white flight and white avoidance by using better and more detailed data and more robust identification methods. Furthermore there are few studies within the literature using European data.

 [Andersson-Migrating Natives and Foreign Immigration-401.pdf](#)

9:00am - 11:00am
Beckett Theatre 1

Fiscal Competition - Theoretical Contributions G

Does Pension Harmonization Ease or Promote Tax Competition?

Hiroki Tanaka¹, Masahiro Hidaka²

¹Doshisha University, Japan; ²Osaka Gakuin University, Japan

In this paper, we expand Batina (2009), and clarify how the unification of pension policy by the central government (or harmonization among local governments over pension policy) gives an impact on capital tax competition of local governments based on a theoretical model under the circumstances that both taxation policy and pay-as-you-go pension policy are determined within the government.

After examining the impact on capital tax competition among local governments from the centralization of pension financing based on an overlapping generations model composed of many homogeneous regions with capital accumulation, it became clear that coordinated reduction of pension premiums can either raise or reduce the equilibrium capital tax rate which was actualized before the harmonization under dynamic efficiency. In other words, it became apparent that it had both possibilities to ease and promote capital tax competition.

 [Tanaka-Does Pension Harmonization Ease or Promote Tax Competition-288.pdf](#)

Tax Competition for Headquarters

Sam Bucovetsky

York University, Canada

A simple model is developed of competition for headquarters of new firms, when the firms will operate in many countries. It is assumed that firms can transfer all their worldwide profits to tax havens, so that their tax liabilities depend only on what fraction of those worldwide profits will be subject to tax in the headquarters country. Countries compete for headquarters by increasing the fraction of worldwide income which they tax. Even when firms' owners are heterogeneous in their attachment to their home country, competition in generosity of exemption will be intense. As recent American experience suggests, countries' governments also have a strong incentive to make costly

the relocation of existing firms. If they succeed, they may affect the supply of new firms, as firms' owners anticipate future expropriation of worldwide profits.

 [Bucovetsky-Tax Competition for Headquarters-284.pdf](#)

Corporate tax games with international externalities from public infrastructure

Gerda Dewit¹, Kate Hynes², Dermot Leahy¹

¹National University of Ireland Maynooth, Ireland; ²City University of Hong Kong

We construct a model of corporate tax competition in which governments also use public infrastructural investment to attract foreign direct investment, thus enhancing their tax bases. In doing so, we allow for interregional infrastructural externalities. Depending on the externality, governments are shown to strategically over- or under-invest in infrastructure. We examine how tax cooperation influences investment in infrastructure and find that welfare may be lower under tax cooperation than under tax competition; this is, in fact, the case when infrastructure is sufficiently effective in raising the tax base and generates a sufficiently large negative interregional

externality.

[Dewit-Corporate tax games with international externalities-490.pdf](#)

The Supermodularity of the Tax Competition Game

Gregoire Rota-Graziosi

International Monetary Fund, United States of America

We establish that the log-concavity of the inverse demand for capital is a sufficient condition to establish the supermodularity of the tax competition game, when jurisdictions maximize their tax revenue and under standard assumptions of the production function. The application of some results from supermodular games participates in the debate on tax competition and tax coordination: Nash equilibria exist and may be Pareto ranked, justifying the need for tax coordination; any increase in the number of tax-competing jurisdictions decreases tax rates and tax revenues and improves the net return of capital... However, establishing a sufficient condition for the supermodularity of the tax competition game with

welfare maximizers raises multiple issues. Besides the question of the nature of public goods, we discuss the perturbing role of capital by considering successively an elastic worldwide capital supply and capital ownership. The nature of the tax competition game can be significantly modified by the emergence of new players.

[Rota-Graziosi-The Supermodularity of the Tax Competition Game-479.pdf](#)

9:00am - 11:00am

Swift Theatre

Household Bargaining

G

Household bargaining, spouses' consumption patterns and the design of commodity taxes

Helmuth Cremer¹, Jean-Marie Lozachmeur¹, Kerstin Roeder²

¹Toulouse School of Economics, France; ²LMU, Munich, Germany

We study the role and structure of commodity taxes, in a world where consumption and labor supply decisions are made by couples according to a bargaining procedure between spouses, and where an optimal income tax is also available. We show that the expressions for the tax rates include Pigouvian and incentive terms. Supposing, for instance, that the female spouse has the lower bargaining weight, we find conditions under which the Pigouvian term calls for a subsidization of "female goods", and a taxation of the "male goods". The incentive term depends on the distribution of bargaining weights across couples. For instance, for the exclusive consumption case, when the weight of the female spouse increases with wages, the female good tends to be consumed in larger proportion by more productive couples. Consequently, the incentive term makes it a candidate for taxation. In this case the Pigouvian term is mitigated.

[Cremer-Household bargaining, spouses consumption patterns and the design-165.pdf](#)

Inequality of Opportunity and Couples: Theory and Evidence for Germany

Martin Ungerer^{1,2}, Andreas Peichl^{1,3,4}

¹Centre for European Economic Research (ZEW); ²University of Cologne; ³University of Mannheim; ⁴Research Institute for the Study of Labor (IZA)

The existing literature on inequality of opportunity (IOp) has paid little attention on how to treat the circumstances and choices of spouses in a couple. We discuss whether the partner's characteristics should be treated as responsibility factors or not. Using German micro data, we analyzed empirically, how IOp estimates are affected when partner's circumstance or effort variables are included as own circumstances in the

analysis. Our analysis shows that including spouses' variables has a significant positive effect on IOp measures.

[Ungerer-Inequality of Opportunity and Couples-456.pdf](#)

Bargaining over Risk: The Impact of Decision Power on Household Portfolios

Arna Vardardottir¹, Tomas Thörnqvist²

¹Copenhagen Business School, Denmark; ²Stockholm School of Economics

This paper investigates the internal financial decision-making process of households by employing a unique panel dataset containing the disaggregated wealth of the entire Swedish population over seven years. We directly estimate the outside options of spouses that determine their decision power and utilize a source of exogenous variation in sex-specific labor demand to show that its distribution among spouses is a driving force in the aggregation of spouses' preferences in financial decision making. As the decision power of female spouses grows, participation in the equity market decreases, participation in other risky asset markets increases, the share of wealth allocated to risky investments decreases, the riskiness of the portfolio decreases, and idiosyncratic risk decreases. We also study the effect of underdiversification on household welfare and find that women exert the influence of their decision power to reduce the cost of underdiversification.

[Vardardottir-Bargaining over Risk-277.pdf](#)

The Efficiency and Distributional Impacts of Individual vs Joint Taxation in a Dynamic Bargaining Model with Renegotiation

Elisabeth Gugl, Sinan Ozel, Linda Welling

University of Victoria, Canada

We present a dynamic family bargaining model that combines the possibility of short-term commitment within a given period with renegotiation between periods. Our model emphasizes a high degree of cooperation between the spouses and inefficient actions are the result of joint decisions of the spouses. Renegotiation will, in general, lead to first-period choices that do not generate efficient outcomes over the course of a marriage. In such a model, there is no type of family taxation that can restore efficiency for couples.

[Gugl-The Efficiency and Distributional Impacts of Individual vs Joint Taxation-371.pdf](#)

9:00am - 11:00am

Room 5033

Inheritance Taxes, Payroll Taxes, and Alternative Payment Mechanisms

G

Inter vivos transfers of ownership in family firms

James R. Hines Jr.¹, Niklas Potrafke², Marina Riem², Christoph Schinke²

¹University of Michigan and NBER; ²Ifo Institute, Germany

This paper examines the determinants of inter vivos transfers of ownership in German family firms between 2000 and 2013. Survey evidence indicates that owners of larger firms, and firms with strong current business conditions, transfer ownership at higher rates than others. When a firm's self-described business condition improves from "normal" to "good" the chance of an inter vivos transfer increases by 46 percent. Inter vivos transfer rates also rose following a 2009 transfer tax reduction. These patterns suggest that transfer taxes significantly influence rates and timing of inter vivos ownership transfers.

[Hines Jr.-Inter vivos transfers of ownership in family firms-193.pdf](#)

Entrepreneurship and inheritance: Liquidity, start-up and performance

Sebastian Oskar Pedro Escobar

Uppsala universitet, Sweden

Using unexpected deaths and a difference in difference identification strategy I estimate the effect of inheritances on small business ownership in Sweden. I find sizable effects of the inheritance, which indicates the presence of liquidity constraints. An average inheritance of about SEK 300,000 increases net small business ownership with approximately 5 percent in the studied population. The effect goes through both increased number of start-ups and increased survival of existing firms.

 [Escobar-Entrepreneurship and inheritance-230.pdf](#)

Who's the Boss: Evidence from the Norwegian Payroll Tax Reform

Evelina Gavrilova^{1,2}, Floris Zoutman^{1,2}, Jarle Møen^{1,2}, Arnt Ove Hopland^{1,2}

¹NHH Norwegian School of Economics, Norway; ²Norwegian Center for Taxation

We exploit quasi-experimental variation in changes of the payroll tax rates in zones within Norway to estimate the incidence of the payroll tax. Our data is a panel of the universe of single-plant firms in manufacturing in Norway between 1998-2012. The data includes the number of hours worked at each plant, allowing us to separate incidence from employer and employee behavioral responses. We find that a 1 percent increase in the payroll tax reduces the gross wage rate by 0.4-0.8 percent indicating that employees pay for 40 to 80 percent of the payroll tax on average. In large plants and in plants with high wage rates the incidence is fully borne by the employees, while in smaller plants with lower wages the incidence is shared around 50-50. We find evidence that firms decrease their labor demand on the intensive margin, consistent with a labor demand elasticity of -1.

 [Gavrilova-Whos the Boss-348.pdf](#)

Designing Policies in the Presence of Hawala Markets

Suranjali Tandon, R. Kavita Rao

National Institute of Public Finance and Policy, India

To deal with rising current account deficits, the government often uses instruments such as increase in customs tariffs. These are expected to induce an appreciation in the currency. In the presence of Hawala markets which constitute an alternative payment mechanism, the control exerted by the customs tariffs is diluted, thereby reducing the effectiveness of this policy in controlling depreciation of the currency. The paper explores the impact of the existence of such a mechanism on the effectiveness of various policy instruments in influencing outcomes on the official foreign exchange markets and GDP.

 [Tandon-Designing Policies in the Presence of Hawala Markets-108.pdf](#)

9:00am - 11:00am

Room 4047

Local Government Performance

G

Sources of Revenue and Government Performance: Theory and Evidence from Colombia

Luis Roberto Martinez

London School of Economics, United Kingdom

It remains unclear whether the very low impact of external revenue (transfers, natural resource rents) on public good provision extends to internally raised tax revenue. A political agency model with career concerns predicts that increases in taxation should have a greater impact on public good provision than increases in external revenue. I test the model's main prediction using panel data on Colombian municipalities for the period 2005-2011. I compare the impact on local public good provision of increases in property tax revenue to that of increases in oil and coal royalties. I exploit quasi-exogenous variation in the international prices of oil and coal and in the timing of cadastral updates for this purpose. I find that a \$1 increase in tax revenue has an impact on educational enrollment at least twice as large as a \$4 increase in oil/coal royalties.

 [Martinez-Sources of Revenue and Government Performance-487.pdf](#)

How does fiscal decentralization affect regional disparities in well-being? Evidence from health inequalities in Italy

Cinzia DiNovi¹, Massimiliano Piacenza², Silvana Robone³, Gilberto Turati²

¹University of Venice; ²University of Turin; ³University of Insubria

This paper aims at investigating empirically the impact of fiscal decentralization reforms on inequality in well-being. In particular, we look at the effects on health inequalities following the assignment of larger tax power to the Italian Regions for financing their health expenditure, starting from the end of the Nineties. Exploiting large differences in the size of the tax base across Regions, we find that fiscal decentralization processes that attribute a greater tax power to lower government tiers, besides reducing inefficiencies of healthcare policies, seem to be effective in reducing also within-regional disparities in health outcomes. However, the degree of economic development – on which depends the actual fiscal autonomy from Central government – significantly affects the effectiveness of these reforms and highlights the importance to take properly into account the specific features of the context where the decentralization of power is implemented.

 [DiNovi-How does fiscal decentralization affect regional disparities-146.pdf](#)

Measuring public sector performance: a four quadrants model to monitor Local Governments' efficiency

Francesco Porcelli^{1,2}, Danilo Ballanti², Roberto Dispotico², Francesco Vidoli²

¹CAGE - University of Warwick, United Kingdom and SOSE SpA (Rome); ²SOSE SpA (Rome)

This paper, conducted as part of the research activities of SOSE S.p.A., develops a simple and innovative model to evaluate the performance of local government in the provision of local public services. The model employs a reduced set of information and fewer assumptions than traditional techniques such as Data Envelopment Analysis and Stochastic Frontier Analysis. The main idea is to base the model on the joint graphical analysis of standard expenditures needs and standard level of services both estimated using a reduced form approach derived from a general theoretical framework based on the interaction between the demand and the supply for local public services. Data about social care services provided by Italian municipalities in 2010 are used to test the model.

 [Porcelli-Measuring public sector performance-354.pdf](#)

Best Education Money Can Buy? Capitalization of School Quality in Finland

Oskari Harjunen^{1,2}, Mika Kortelainen^{3,4}, Tuukka Saarimaa³

¹Aalto University School of Business; ²City of Helsinki Urban Facts; ³VATT Institute for Economic Research, Finland; ⁴University of Manchester

By international comparison, Finnish pupil achievement is high and school achievement differences small. The Finnish education system is unusual also because there are no national testing programs and information on school quality measures is not publicly disclosed. Is school quality capitalized into house prices in this environment? Using a boundary discontinuity research design and data from Helsinki, we find that it is: a one standard deviation increase in average test scores increases prices by roughly 2.5 percent, which is comparable to findings from the U.K and the U.S. This price premium is related to pupils' socioeconomic background rather than school effectiveness.

 [Harjunen-Best Education Money Can Buy Capitalization of School Quality-492.pdf](#)

9:00am - 11:00am

Room 4050A

Mobility and Fiscal Competition

G

Commuting in a federation: Horizontal and vertical tax externalities revisited

Willem Sas

KU Leuven, Belgium

In this paper, commuting is introduced to a federal setting where an ad valorem residence based tax on labour income is decentralised. This has lower-level (state) governments set inefficiently low taxes, even when households as a whole do not migrate. Rather than attracting more workers, state governments are out to boost labour supplied by own residents and impede work incentives of non-residents. When the labour tax base is co-occupied by the federal and state governments secondly, either public under- or overtaxation may occur. Our model identifies clear conditions for states to overprovide, i.e. for the overall fiscal externality to be negative. Interestingly, such a negative externality may arise even when the vertical as well as horizontal externalities are positive in

isolation, and one would rather expect underprovision. Lastly, when states differ in terms of preferences and technology, an inflow of commuters makes it more likely for states to set taxes inefficiently low.

 [Sas-Commuting in a federation-471.pdf](#)

Cross-border or Online - Tax Competition with Mobile Consumers

Laura Birg

University of Göttingen, Germany

This paper studies tax competition between two countries with brick and mortar stores and an online shop in a spatial model with imperfect competition. For identical countries and a homogeneous good, both countries set the same tax rate. Greater distance between the stores increases taxes. Higher mobility of consumers reduces taxes. If the online shop has an alternative market, tax rates increase in the size of the alternative market and decrease in the price elasticity of it.

 [Birg-Cross-border or Online-472.pdf](#)

Distance is crucially important, at least for neighbors – foreign employment at the district level

Wolfgang Nagl¹, Robert Lehmann²

¹Ifo Institute, Germany; ²Ifo Institute, Germany

We study the regional representation of foreign workers from each EU-27 country in German regions. For most of the German neighboring countries, we find that distance significantly matters for the workplace location in Germany. The striking exception is Poland. For non-neighboring countries, distance only matters for countries which are geographically close to Germany. Distance has also a negative effect on the net-migrations flows of foreign workers from geographically close countries. We confirm the state-specific effects of distance using a random effects approach. Approaches with different estimation techniques at different time points back up our findings.

 [Nagl-Distance is crucially important, at least for neighbors – foreign employment at the district level-516.pdf](#)

Urban Sprawl and Local Public Service Costs in Japan

Tomoya Ida, Hiroshi Ono

Oita University, Japan

This paper empirically investigates the impact of the growth of urban sprawl on local public service costs in Japan using a local expenditure model. We undertake our analysis using cross-sectional data from 2008 for 1,093 Japanese municipalities. In the model, we combine the supply and demand functions for local public services to better separate the cost effects of urban sprawl from other factors. With the supply function, we find that supply factors, including increasing urban sprawl, positively correlate with the costs of public service provision. Overall, urban sprawl growth has a positive and significant impact on local public expenditure with estimated coefficients between 0.0929 and 0.0990. Based on a certain statistically significant and theoretically consistent outcome, this suggests that a 1 percent increase in urban sprawl in Japan will increase the marginal cost of public service provision by some 0.1280 percent.

 [Ida-Urban Sprawl and Local Public Service Costs in Japan-101.pdf](#)

9:00am - 11:00am
Room 5052

Political Attitudes

G

Does the field of study influence students' political attitudes?

Mira Fischer³, Björn Kauder¹, Niklas Potrafke^{1,2}, Heinrich W. Ursprung⁴

¹Ifo Institute, Germany; ²University of Munich; ³University of Cologne; ⁴University of Konstanz

We investigate whether the field of study influences university students' political attitudes. To disentangle self-selection from learning effects, we first investigate whether the fields of study chosen by the incoming students correlate with their political attitudes. In a second step we explore how the political attitudes change as the students progress in their studies. Our results are based on a German pseudo-panel survey, the sample size of which exceeds that of comparable student surveys by an order of magnitude. We find systematic differences between the students' political attitudes across eight fields of study. These differences can in most cases be attributed to self-selection. A notable exception is economics. Even though self-selection is also important, training in economics has an unambiguous influence on the political attitudes: by the time of graduation, economics students are about 6.2 percentage points more likely than they were as freshmen to agree with liberal-democratic policy positions.

 [Fischer-Does the field of study influence students' political attitudes-164.pdf](#)

Income and policy choices: Evidence from parliamentary decisions and referenda

David Stadelmann^{1,2}, Marco Portmann^{2,3}, Reiner Eichenberger^{2,3}

¹University of Bayreuth, Germany; ²CREMA – Center for Research in Economics, Management and the Arts, Switzerland; ³University of Fribourg, Switzerland

We analyze political representation of preferences of different income groups by matching referendum outcomes for low, middle, and high-income voters with individual legislators' decisions on identical policy proposals. Results indicate that legislators more closely represent preferences of rich voters than preferences of middle-income and poor voters, and legislators are more responsive towards the rich. Preferences of low, middle, and high-income voters are, however, correlated. Representation of income groups varies according to legislators' party affiliations.

 [Stadelmann-Income and policy choices-158.pdf](#)

Electoral cycles, partisan effects and US immigration policies

Marcus Drometer, Romuald Méango

Ifo Institute, Germany

Using a panel of naturalizations in US states from 1986 to 2012, we empirically analyze the impact of elections on immigration policies. Our results indicate that immigration policies are (partly) driven by national elections: the number of naturalizations is larger in presidential election years and during terms with democratic incumbents. Further evidence suggests that the partisan effects are even more pronounced in politically contested states.

 [Drometer-Electoral cycles, partisan effects and US immigration policies-233.pdf](#)

Lobbying as Costly Persuasion with Legislative Subsidies

Christopher J. Ellis², Thomas Groll¹

¹Columbia University, United States of America; ²University of Oregon, United States of America

We develop a model of informational lobbying that combines costly persuasion with legislative subsidies and focus on the implications of a policymaker's and a lobby's resource constraints for lobbying activities. Both a policymaker and a lobby can gather information, and each can either fund or subsidize a policy reform. We show that a lobby is more likely to persuade a policymaker to change her anticipated behavior of gathering information or choosing a policy, if the precision of the information signals received by the lobby is more asymmetric rather than better or if information costs are lower. By varying resource endowments, we address whether costly persuasion and financial contributions as legislative subsidies are substitutes or complements in the lobbying process and derive the conditions for each. Additionally, we discuss the relationship between costly persuasion and financial information subsidies in the case of an entirely resource constrained policymaker.

 [Ellis-Lobbying as Costly Persuasion with Legislative Subsidies-349.pdf](#)

9:00am - 11:00am
Room 5039

R&D Tax Incentives

G

R&D tax incentives and the emergence and trade of ideas

Simon Bösenberg¹, Peter Egger^{1,2}

¹ETH Zurich, Switzerland; ²CEPR, CESifo, Leverhume Centre for Research on Globalisation and Economic Policy (GEP) at the University of Nottingham, NoCeT and Oxford University Centre for Business Taxation (OUCBT)

This paper provides a rigorous assessment of tax incentives towards research and development (R&D) around the globe. It establishes the biggest existing data-set on such incentives, covering 106 countries annually between 1996 and 2012. We formulate two combined measures of tax incentives: one is a measure of effective marginal tax reductions on R&D incentives, referred to as the b-index in the literature, of which existing data-sets cover up to 38 countries; a second, novel one is the effective average tax rate on profits from R&D investments (EATR^{R&D}), which is not available from other databases. The paper assesses effects of these incentives on the filing and trading of patents (conditional on other drivers of patenting) based on some 2 million patent incidents from the European Patent Office.

 Bösenberg-R&D tax incentives and the emergence and trade of ideas-163.pdf

Effectiveness of fiscal incentives for R&D: a quasi-experiment

Irem Guceri, Li Liu

University of Oxford, United Kingdom

Governments implement tax incentives for R&D as a convenient way of addressing the externality problem caused by the public good nature of knowledge. With growing interest in R&D tax incentives, the question about their effectiveness has become ever more relevant. In the absence of an exogenous policy reform, the simultaneous determination of companies' tax positions and their R&D spending causes an identification problem. We are able to overcome this problem by exploiting a policy reform that took place in the UK. We use the population of corporation tax records that provide precise information on the amount of firm-level R&D expenditure that qualify for the tax incentive. Using difference-in-differences to estimate the effect of the policy, we find a positive and significant impact of R&D tax credits on firm level R&D spending, and an implied user cost elasticity estimate of around -2.5.

 Guceri-Effectiveness of fiscal incentives for R&D-318.pdf

International R&D Sourcing and Knowledge Spillover: Evidence from OECD Countries

Estelle P. Dauchy¹, Sophia Chen²

¹New Economic School, Russian Federation; ²International Monetary Fund, Washington D.C., USA

The effect of knowledge spillover for resident companies from international R&D activities

has been scarcely studied because of data limitations and because knowledge spillover is traditionally viewed as being generated from inward foreign investment. This paper is the first to evaluate empirically international knowledge spillovers from outward R&D in OECD countries. Our estimations also offer a new way to measure a country's position in a network of international knowledge influence links, based on inward and outward, bilateral and multilateral knowledge spillovers. We deal with the potential endogeneity issue of the innovation location decision in various ways, using several instruments including pre-sample patent applications directly or indirectly owned and R&D tax incentives. We find that foreign spillover effects are positive and significant overall. There is a large variation between countries.

 Dauchy-International R&D Sourcing and Knowledge Spillover-206.pdf

Innovation policies and the effect on innovation: A study on firm level patenting

Marit Elisabeth Klemetsen^{1,2}

¹University of Oslo; ²Statistics Norway, Norway

We examine the impacts of R&D tax credits and direct R&D subsidies on Norwegian firms' patenting, and for environmental patenting in particular. Whereas direct subsidies are aimed at projects with low private return and high social return, tax credits do not discriminate between projects. Tax credits currently favor SMEs and firms with relatively low R&D investments. We find that both direct subsidies and tax credits have significant positive effects on patenting in general. For environmental patenting, we find no significant effects of tax credits, whereas the effects of direct subsidies are large and significant. A possible explanation is that environmental innovation faces the environmental externality and greater knowledge externalities. For large firms, we find large and significant effects of direct subsidies, but no significant effects of tax credits. The rate of return to society would likely increase if tax credits were designed to reflect the external spillovers from research.

 Klemetsen-Innovation policies and the effect on innovation-271.pdf

9:00am - 11:00am
Ed Burke Theatre

Tax Compliance

G

How long-lasting are the effects of audits?

William Elming¹, Jonathan Shaw^{1,2}, Arun Advani^{1,2}

¹Institute for Fiscal Studies (IFS), Tax Administration Research Center (TARC); ²University College London

Understanding tax non-compliance and the effectiveness of strategies to tackle it is crucial for a modern tax authority. In this paper we study the indirect benefits of conducting audits, focusing on how the reported tax liability of audited individuals changes over time after an audit. We exploit data from a random audit program covering income tax self-assessment returns in the UK. We find that audits have a large and persistent impact on reported tax liability that reaches around 26 per cent on average by the fourth year following the tax year to which the audit relates.

 Elming-How long-lasting are the effects of audits-251.pdf

Heterogeneous Responses to Effective Tax Enforcement: Evidence from Spanish Firms

Miguel Almunia¹, David Lopez-Rodriguez²

¹University of Warwick, United Kingdom; ²Banco de España, Spain

We investigate whether monitoring the information trails generated by firms' activities improves tax compliance. We exploit quasi-experimental variation generated by a Large Taxpayers' Unit (LTU) in Spain, which devotes additional resources to verifying the transactions reported by firms with more than €6 million in reported revenue. Firms bunch below this threshold in order to avoid stricter tax enforcement, and this reaction is stronger in sectors where the paper trail is easier to monitor. These results suggest that monitoring efforts by the tax authority and the traceability of information reported by firms are complements, and both are necessary for effective tax enforcement.

 Almunia-Heterogeneous Responses to Effective Tax Enforcement-287.pdf

Norms, Enforcement, and Tax Evasion

Anders Ditlev Jensen¹, Tim Besley¹, Torsten Persson²

¹LSE, United Kingdom; ²IIES, Sweden

This paper studies individual and social motives in tax evasion. We build a simple dynamic model that incorporates these motives and their interaction. The social motives underpin the role of norms and is the source of the dynamics that we study. Our empirical analysis exploits the adoption in 1990 of a poll tax to fund local government in the UK, which led to widespread evasion. We also exploit a series of natural experiments due to narrow election outcomes, which induce shifts into single-majority local governments and lead to more vigorous enforcement of local taxes. The econometric results are consistent with the model's main predictions on the dynamics of evasion.

[Jensen-Norms, Enforcement, and Tax Evasion-419.pdf](#)

Are the Neighbors Cheating? Evidence from a Social Norm Experiment on Property Taxes in Peru.

Lucia Del Carpio

INSEAD, France

I study the role of norms on tax compliance through a field experiment on property taxes in Peru. Randomly chosen subsets of residents in two municipalities in the Lima province were informed, through an official letter, about the average rate of compliance, the level of enforcement, or both. A last group was only reminded of the payment deadline. The study also included surveys in which a subsample of taxpayers was asked, before and after the interventions, about their beliefs concerning the levels of compliance and enforcement. Disclosing information on the rate of compliance had a large positive impact on compliance (20%). The payment reminder, however, also raised compliance by 10%. The enforcement treatment did not have a significant effect on compliance net of the reminder effect. Both the norms and enforcement treatments raised beliefs about compliance as well as about enforcement. Interestingly, the reminder letter also raised beliefs about compliance.

[Del Carpio-Are the Neighbors Cheating Evidence from a Social Norm Experiment-539.pdf](#)

9:00am - 11:00am
Ui Chadhain Theatre

The Role of Tax Havens

G

The Effects of Tax Havens on Host Country Welfare

Thomas Gresik¹, Dirk Schindler², Guttorm Schjelderup²

¹University of Notre Dame, United States of America; ²Norwegian School of Economics, Norway

Multinational corporations can shift income into low-tax countries through transfer pricing and debt financing. While most developed countries use thin capitalization rules to limit the extent to which a subsidiary can be financed with internal debt, a number of developing countries do not. In this paper, we analyze the effect on FDI and host country welfare of thin capitalization rules when multinationals can also shift income via transfer prices. We show that while permissive thin capitalization limits may be needed in developing countries to attract FDI, the amount of debt financing allowed by the permissive limits facilitates more aggressive transfer pricing and results in lower host country welfare.

[Gresik-The Effects of Tax Havens on Host Country Welfare-219.pdf](#)

Does Exchange of Information between Tax Authorities Influence Multinationals' Use of Tax Havens?

Julia Braun¹, Alfons J Weichenrieder²

¹ZEW Mannheim, WU Vienna; ²Goethe University Frankfurt, WU Vienna, CESifo

Since the mid-1990s, countries offering tax systems that facilitate international tax avoidance and evasion have been facing growing political pressure to comply with the internationally agreed standards of exchange of tax information. Using data of German investments in tax havens, we find evidence that the conclusion of a bilateral tax information exchange agreement (TIEA) is associated with fewer operations in tax havens and the number of German affiliates has on average decreased by 46% compared to a control group. This suggests that firms invest in tax havens not only for their low tax rates but also for the secrecy they offer.

[Braun-Does Exchange of Information between Tax Authorities Influence Multinationals' Use of Tax Havens-393.pdf](#)

Coordination and the fight against tax havens

Kai A. Konrad^{1,2}, Tim Stolper^{1,2}

¹Max Planck Institute for Tax Law and Public Finance, Germany; ²LMU Munich, Germany

The success or failure of the fight against tax havens is the outcome of a coordination game between a tax haven and its potential investors. Key determinants are the costly international pressure and the haven country's revenue pool. The latter is determined endogenously by the decisions of many individual investors. Our findings explain why some havens attract large sources of international investment and earn large revenues while other countries do not, and why their profits are not competed away. We identify a trade-off between fighting tax havens and high tax rates or, similarly, small fines for disclosed tax evasion.

[Konrad-Coordination and the fight against tax havens-339.pdf](#)

Knocking on Tax Haven's Door: Multinational Firms and Transfer Pricing

Ronald Davies¹, Julien Martin², Mathieu Parenti³, Farid Toubal⁴

¹UCD, Dublin (Ireland); ²UQAM, Montreal (Canada); ³UCLouvain, Louvain-La-Neuve (Belgium); ⁴ENS-Cachan, Paris (France)

This paper analyzes the transfer pricing of multinational firms. We show that intra-firm prices may systematically deviate from arm's length prices for two motives: pricing to market and tax avoidance. Using French firm-level data on arm's length and intra-firm export prices, we find that the sensitivity of intra-firm prices to foreign taxes is reinforced once we control for pricing-to-market determinants. Most importantly, we find no evidence of tax avoidance if we disregard tax haven destinations. Tax avoidance through transfer pricing is economically sizable. The bulk of this loss is driven by the exports of 450 firms to ten tax havens.

[Davies-Knocking on Tax Havens Door-408.pdf](#)

9:00am - 11:00am
Room 5025

Topics in Business Taxation and Regulation

G

The Tax-rate Elasticity of Local Business Profits

Frank M. Fossen, Viktor Steiner

Freie Universitaet Berlin, Germany

Local business profits respond to local business tax (LBT) rates that vary across municipalities. We estimate that a one percent increase in the LBT rate decreases the LBT base by 0.45 percent, based on the universe of German LBT return files, which include corporations and unincorporated businesses. However, the fiscal equalization scheme largely compensates municipalities for the loss in the LBT base when they increase the LBT rate. Our estimates suggest that using tax revenue data instead of tax return data, as commonly done in the literature, results in a significant bias of the elasticity away from zero.

[Fossen-The Tax-rate Elasticity of Local Business Profits-196.pdf](#)

Efficiency Costs of Dividend Taxation with Managerial Firms

Michael Stimmelmayer, Marko Koethenburger

ETH Zurich, Switzerland

The paper analyzes the efficiency costs of dividend taxation in an effort-based corporate agency model in which non-verifiable managerial effort enhances taxable profits. We show that, unlike in traditional efficiency analysis, the source of investment finance and the sensitivity of investment to dividend taxes are not uniquely linked. Investment might be downward distorted when retained earnings or new equity issue finance investments at the margin. We provide a testable implication to infer the mode of investment finance from the investment sensitivity to dividend taxes. We show that the efficiency effects depend on the investment and effort responses in general. In the case of an ACE system or R-based cash flow system dividend, however, taxes do not impair efficiency based on the tax-induced investment response. Finally, we show that imposing an income tax on managerial incentive pay is equivalent to a general dividend tax, both in terms of induced firm responses and their efficiency implications.

[Stimmelmayer-Efficiency Costs of Dividend Taxation with Managerial Firms-445.pdf](#)

Corporate taxation of heterogeneous firms and the welfare effects of labor unions

Andrea Schneider

University of Münster, Germany

This article examines the welfare effects of powerful labor unions when the government levies a uniform tax rate - as is currently the case in most OECD countries - and firms are heterogeneous with respect to productivity. I show that an increase in the bargaining power of labor unions can decrease the welfare loss generated by restriction of the tax policy even if labor unions have a negative effect on welfare. I also provide conditions under which powerful labor unions decrease the likelihood that firms will move abroad and reproduce the well-known effect whereby powerful labor unions decrease corporate tax rates if firms are mobile.

 [Schneider-Corporate taxation of heterogeneous firms and the welfare effects of labor unions-244.pdf](#)

Regulating bankers' pay: Incentive contracts and non-binding salary caps

Marcus Dittrich¹, Silvio Staedter²

¹Chemnitz University of Technology, Germany; ²University of Regensburg, Germany

This paper analyses the effects of several regulatory caps on banker's pay. We use a principal-agent model with moral hazard in which a bank and a banker bargain over an incentive contract. Within this framework, we discuss the consequences of (i) a cap on the banker's bonus, (ii) concurrent caps on both the banker's bonus and the fixed payment and (iii) a cap on the banker's total payment. We find that all the caps negatively affect the banker's effort and the efficiency of the contract, even if the caps are modest and non-binding such that they are introduced at a level above the bargaining outcome without a cap. With regard to social welfare, two concurrent caps on the bonus and the fixed payment have the most negative effect.

 [Dittrich-Regulating bankers pay-240.pdf](#)

9:00am - 11:00am
Boardroom 2026

Transport Taxes

G

Can we decentralize transport taxes?

Chau Man Fung, Stef Proost

KU Leuven, Belgium

This paper sets up an analytical model to study a tax reform where federal gasoline taxes are gradually replaced by a combination of tolls that are decided by urban and rural local authorities. When the federal and local governments maximize the welfare of their own citizens, there are no spillovers, capacity is given and all tax revenues are returned to the different regions, the reform can increase welfare if the implementation costs of the local tolls remain limited. This result holds for federal and local governments that behave non-cooperatively or when the federal government is a Stackelberg leader. Major barriers in the reform include the allocation of the revenues when the federal government wants to keep the initial gasoline tax revenue constant and the presence of spillovers. We find that the losses from the former can be small, whereas spillovers significantly reduce the welfare gains of the new instruments.

 [Fung-Can we decentralize transport taxes-278.pdf](#)

Private Access Fees and Congestion: Is There a Role for Government After All?

Nathan Seegert¹, Stephen Salant²

¹Department of Finance, University of Utah; ²Department of Economics, University of Michigan

We reconsider an important debate between Pigou (1920) and Knight (1924) nominally about congestible roads. Contrary to Knight's contention, allowing independent players to set tolls on congestible roads does not necessarily induce an efficient allocation of motorists. Toll-setting does result in efficient allocation in the limit of a large economy even in the absence of any uncongestible road. But in the more realistic circumstance of a finite economy, toll-setting--unlike Pigouvian taxes--will not in general achieve efficiency. We use these results to demonstrate a role for government in producing an uncongestible option that provides the necessary "competitive conditions" for toll-setting to reach the efficient outcome. These results are important for other allocation problems involving congestion. They even apply to the allocation of researchers across different contests where prize setters offer each winner a monetary prize and must compete with other prize setters and with jobs offering risk-less compensation.

 [Seegert-Private Access Fees and Congestion-161.pdf](#)

Why truck distance taxes are contagious and drive fuel taxes to the bottom

Stef Proost¹, Svante Mandell²

¹KU Leuven, Belgium; ²VTI, Sweden

This paper analyzes how countries with international and local truck traffic decide to switch from a fuel tax system only to a dual system of fuel taxes and kilometer taxes. We show what drives one country to switch and how this affects the level of fuel taxes and the incentives for the other countries to also opt for the dual system. The model is able to partially explain the gradual extension of the kilometer charging for trucks in Europe. The model also shows how, in the absence of diesel cars, the gradual introduction of kilometer charges will make fuel taxation for trucks virtually disappear and lead to a system where truck use is mainly taxed by distance charges only but is taxed too heavily.

 [Proost-Why truck distance taxes are contagious and drive fuel taxes-388.pdf](#)

Perception of Gasoline Taxes and Driver Cost: Implications for Highway Finance

Ronald C Fisher¹, Robert W Wassmer²

¹Michigan State University, United States of America; ²California State University, Sacramento

This research compares the actual magnitude of fuel taxes to the perceptions of these amounts. The issue is whether misperceptions about fuel taxes are contributing to voter perspectives about transportation finance and investment issues. A survey of likely Michigan voters shows that taxpayers greatly overestimate the amount they pay in fuel taxes. Half of the respondents (voters) overestimate the magnitude by at least a factor of five, and three-quarters overestimate the magnitude by at least a factor of three. Regression analysis shows that voter (mis)perceptions regarding the magnitude of state fuel taxes do affect their views regarding highway revenue and investment proposals. These results will be compared and the analysis expanded by including a forthcoming comparable survey of California residents.

 [Fisher-Perception of Gasoline Taxes and Driver Cost-481.pdf](#)

11:30am - 12:30pm
Ed Burke Theatre

Plenary IV: Keynote Lecture by Michael Devereux, Oxford University: "Is a Sustainable Tax on International Profit Feasible?"

Session Chair: **Panu Poutvaara**, University of Munich and Ifo Institute

Is a Sustainable Tax on International Profit Feasible?

Michael P Devereux

Oxford University, United Kingdom

 [Devereux-Is a Sustainable Tax on International Profit Feasible-577.pdf](#)

12:30pm - 1:30pm
Ed Burke Theatre

Congress Closing: Closing and Awards Ceremony

Print View 

