

FISCAL POLICY: A DISCUSSION

Trevor Gallen

INTRODUCTION

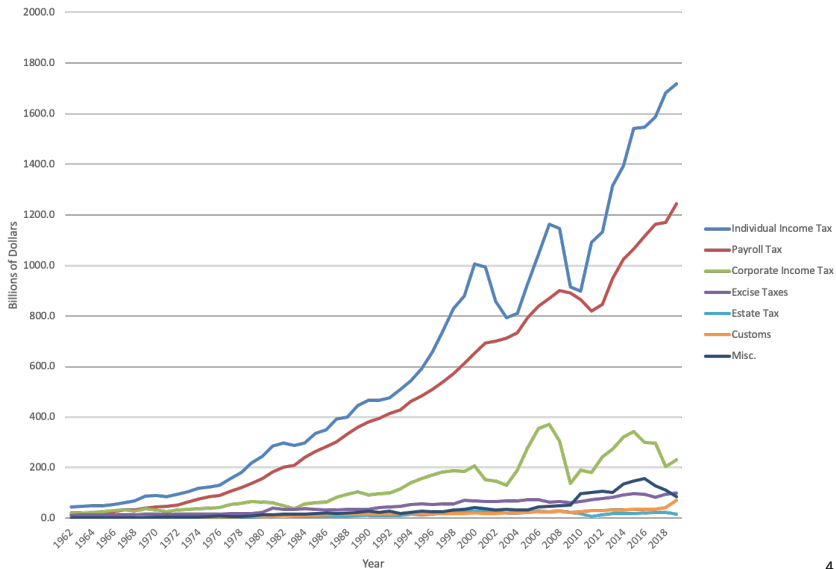
- ▶ So far we've talked about
 - ▶ The macroeconomic aggregates
 - ▶ Labor supply/demand and the labor-leisure tradeoff
 - ▶ The intertemporal tradeoffs households think
- ▶ And then applied these to understand:
 - ▶ UBI
 - ▶ Economic Growth
 - ▶ Immigration economics
- ▶ Worth giving a fuller overview of fiscal policy more generally in this lecture
- ▶ As always, we'll sprint through!

INTRODUCTION-II

- ▶ We'll look at the United States primarily, with some comparisons to other countries
- ▶ A few questions:
 - ▶ Where does the money come from?
 - ▶ Where does the money go?
 - ▶ How do we collect/spend relative to other advanced countries?
- ▶ First we'll look at U.S. Federal Revenues

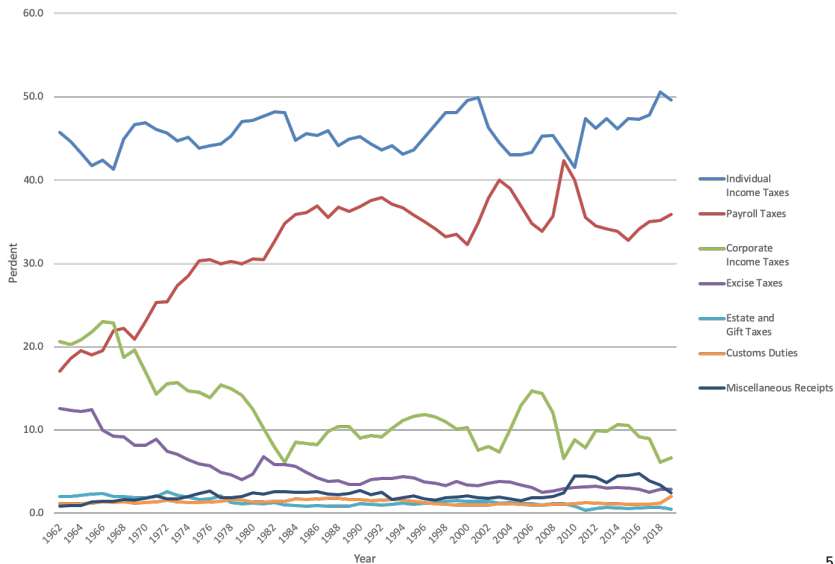
REVENUES

Sources of U.S. Federal Government Revenue



REVENUES

Sources of U.S. Federal Government Revenue: Percent

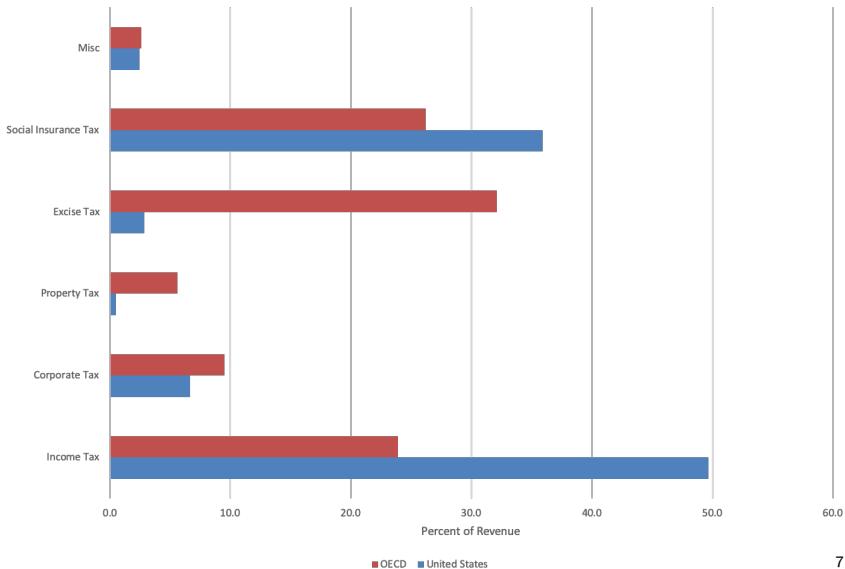


DISCUSSION

- ▶ A few things might jump out at you
 - ▶ Individual income taxes are incredibly important ($\approx 50\%$ of revenue)
 - ▶ Payroll taxes are also very important ($\approx 35\%$ of revenue)
 - ▶ Corporate taxes used to be important (but aren't as much ($20\% \rightarrow 7\%$))
 - ▶ Excise taxes and customs, historically, used to be important but aren't
- ▶ How does this compare to European countries?

DISCUSSION

Sources of Government Revenue: International Comparison



REVENUE TAKEAWAYS

- ▶ Big differences in total revenue, state/local breakdown, and sources of revenue
- ▶ US govt as a whole takes about 2/3 as much revenue
- ▶ US far more dependent on income tax rather than VAT
- ▶ This reduces progressivity gap!

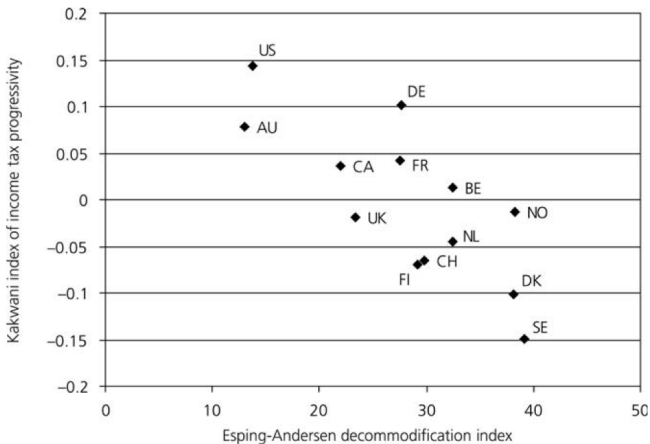
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WHERE IS US PROGRESSIVITY COMING FROM?

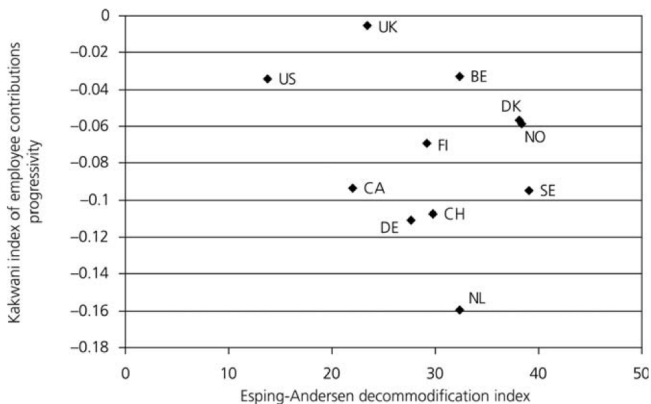
- ▶ Prasad and Deng (2009)
- ▶ Examine Kakwani index of tax progressivity (compare Gini of income to Gini of taxes)
- ▶ Compare to welfare state measure (Esping-Andersen's "decommodification index")
- ▶ Two points:
 - ▶ Surprising—US is actually very progressive, because of **tax mix** even if *income tax* is less progressive(!)
 - ▶ Possibility: trade off between tax progressivity and welfare state possibly opposite direction than pundits might think!

INCOME TAX PROGRESSIVITY



Surprising, right? US most progressive (and this is where we get a lot of income)

PAYROLL TAX PROGRESSIVITY

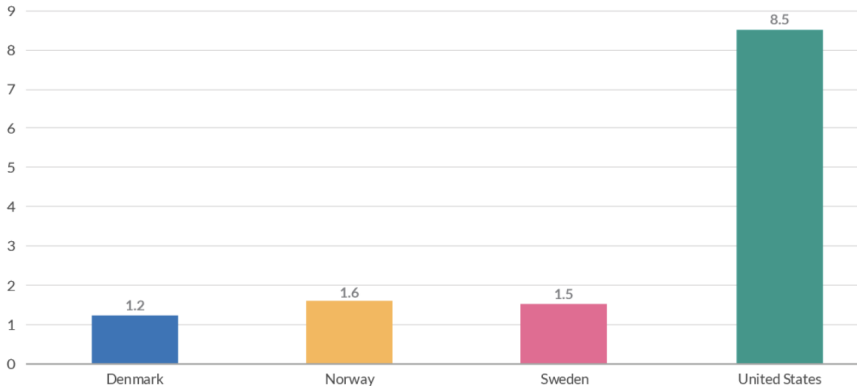


Again US most progressive.

HOW PROGRESSIVE?

Progressivity of Scandinavian and U.S. Income Taxes

Threshold at Which the Top Marginal Income Tax Applies as a Multiple of the Country's Average Income, 2015



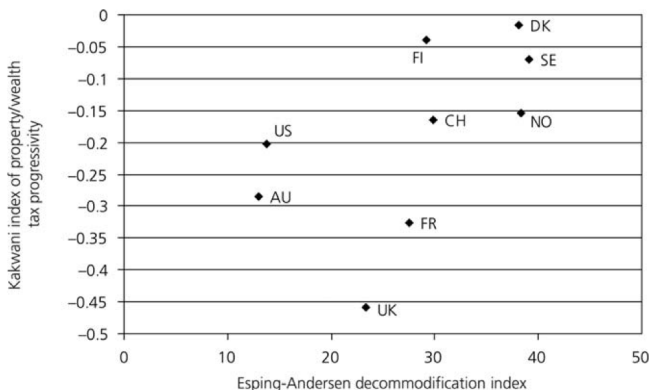
Source: OECD

TAX FOUNDATION

@TaxFoundat

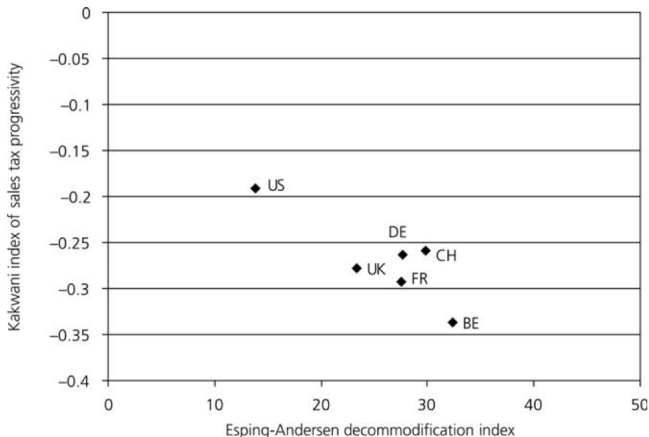
It's about the distribution

WEALTH TAX PROGRESSIVITY



Socially democratic countries more progressive, but wealth tax unimportant.

SALES TAX PROGRESSIVITY



Socially democratic countries more regressive, and this is where they get a lot of income!.

OVERALL TAX PROGRESSIVITY (NO SALES TAX)

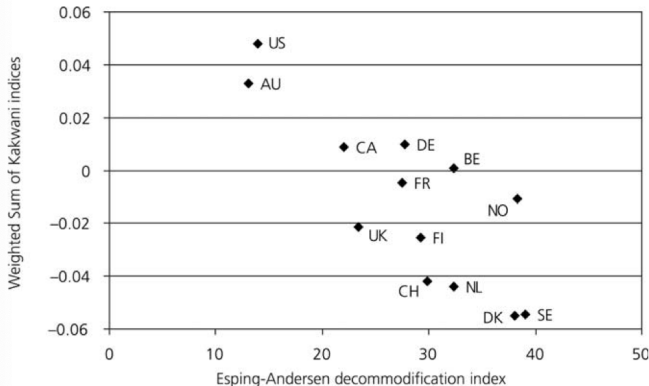
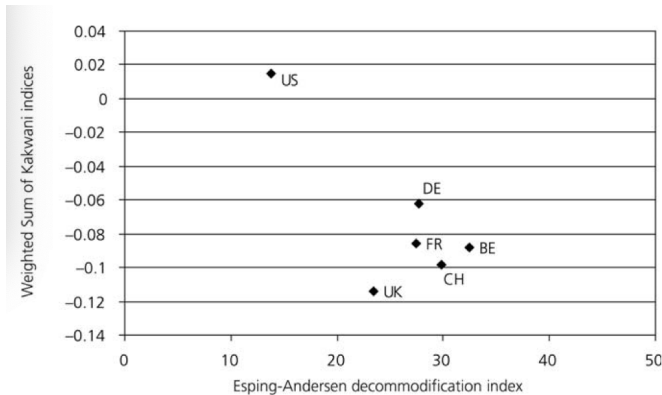


Figure 5 Overall progressivity of tax structure (excluding sales tax).

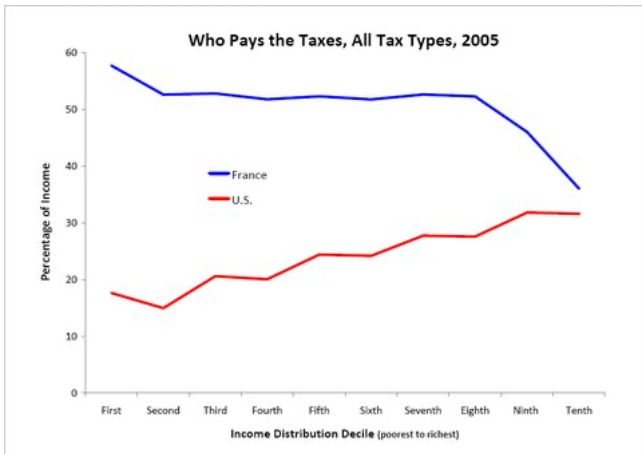
Overall US most progressive, smallest welfare state

SALES TAX PROGRESSIVITY (SALES TAX)



Overall US most progressive, smallest welfare state

FRANCE VS US



TURNING TO EXPENDITURES

- ▶ U.S. Federal Govt spends \approx 4.5 trillion per year
- ▶ Where does it all go?

Spending Category	Pct of Gross Spending
Social Security	23.4
Military/Related	21.6
Medicare	17.4
Nondefense Discretionary	14.8
Medicaid	9.2
Other welfare	6.8
Interest	8.4
Other Programs	4.5

- ▶ Note these add up to 106% because I don't exclude offsetting receipts

DISCRETIONARY BUDGET

- Worth knowing that “nondefense discretionary” budget (15% of total budget)

Spending Category	Pct of Nondiscretionary Nondefense Spending
HHS	20.5%
Education	14.2%
VA	22.3%
Homeland Security	10.6%
Energy Department	7.5%
HUD	10.2%
State Department	9.4%
NASA	5.4%

DISCRETIONARY BUDGET

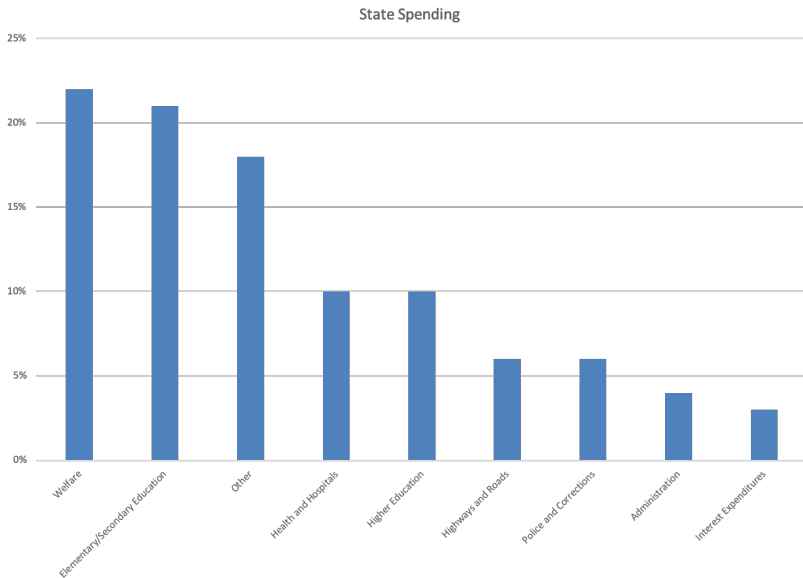
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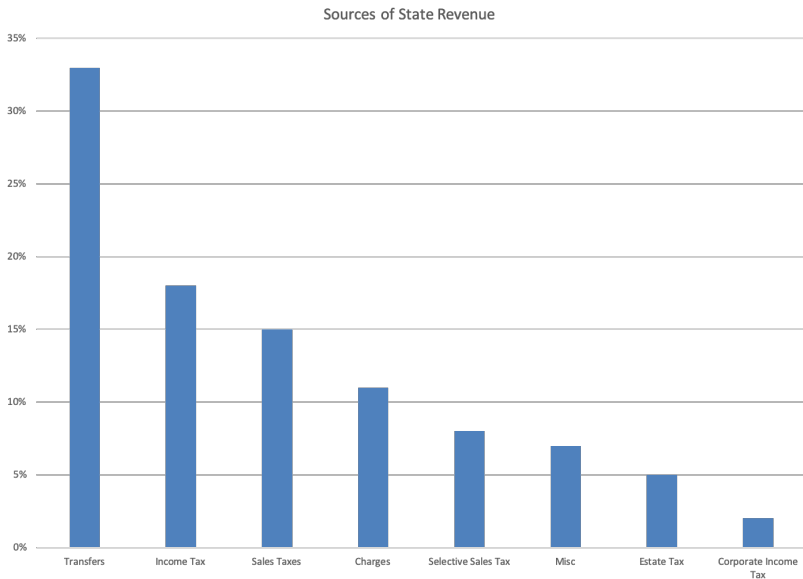
U.S. FEDERALISM

- ▶ State revenue and spending looks pretty different, but it's nearly half Federal
- ▶ Let's get a brief overview of expenditures and spending
- ▶ Important: some double-counting compared to previous tables (Medicaid administered by states, for instance)
- ▶ Broadly, Federal Government spends

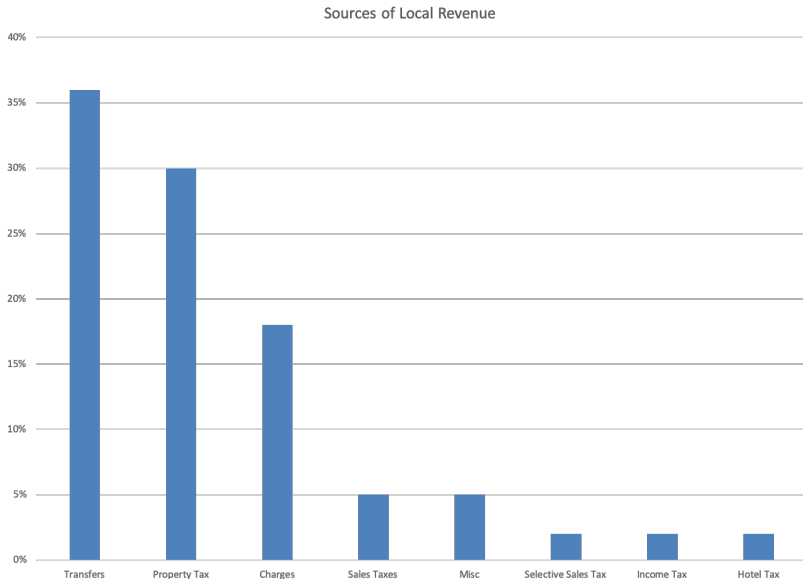
STATE AND LOCAL EXPENDITURES



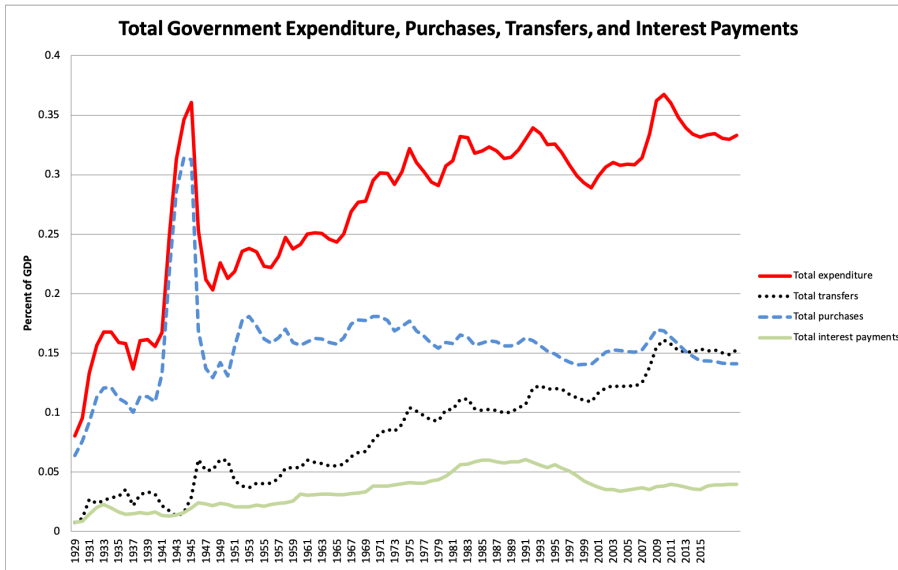
STATE REVENUES



LOCAL REVENUES



WHAT'S HAPPENED OVER TIME?



TAKEAWAYS

- ▶ State revenue and spending looks pretty different, but it's nearly half Federal
- ▶ Let's get a brief overview of expenditures and spending

COMPARING SYSTEMS

- ▶ So how can Scandinavians tax so much?
- ▶ Kleven 2014
- ▶ Useful definition: participation tax, by what fraction of surplus created does consumption increase when you work

COMPARING SYSTEMS

Table 1

Tax Revenue and Tax Rates in Scandinavia versus Selected Comparison Countries

	<i>Denmark</i>	<i>Norway</i>	<i>Sweden</i>	<i>Germany</i>	<i>United Kingdom</i>	<i>United States</i>
Tax revenue /GDP	48.2%	42.8%	45.8%	36.3%	35.0%	24.8%
Shares of tax revenue						
Income taxes	64.2%	70.7%	68.4%	68.7%	54.8%	70.0%
Property taxes	3.8%	2.9%	2.4%	2.4%	11.8%	12.2%
Consumption taxes	31.6%	26.4%	28.8%	28.4%	32.8%	17.9%
Income tax distortions						
Top marginal tax rate	69.8%	60.8%	73.6%	59.3%	62.7%	43.3%
Participation tax rate	87.0%	77.6%	76.7%	63.0%	55.6%	36.6%

Marginal tax rates higher, participation tax higher

COMPARING SYSTEMS

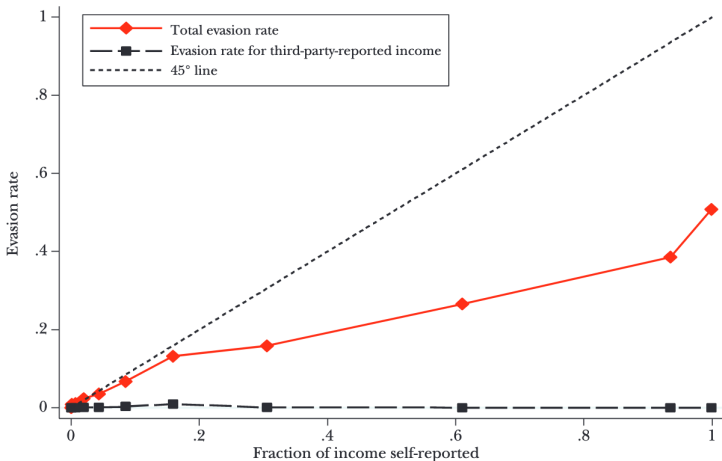
- ▶ Why Scandinavia no collapse?
- ▶ A few answers:
 - ▶ Hard to cheat on taxes: third party reporting
 - ▶ Hard to avoid taxes: broad tax base
 - ▶ Subsidize work
 - ▶ Norms

HARD TO CHEAT ON TAXES

Figure 1

Evasion by Fraction of Income Self-Reported

(from a Danish tax audit field experiment)

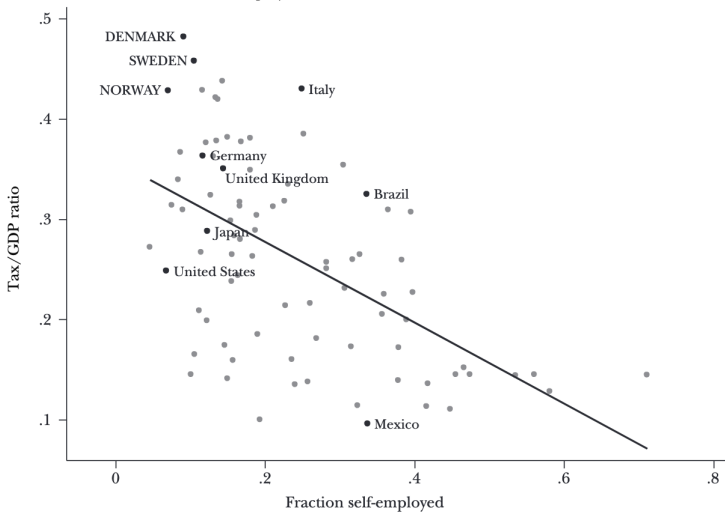


ABILITY TO CHEAT IMPORTANT!

Figure 2

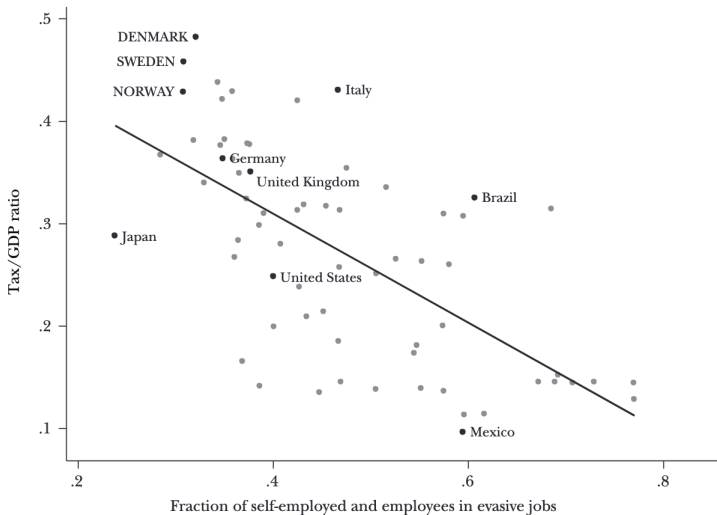
Tax Take and Third-Party Reporting across Countries

A: Tax Take versus Fraction Self-Employed



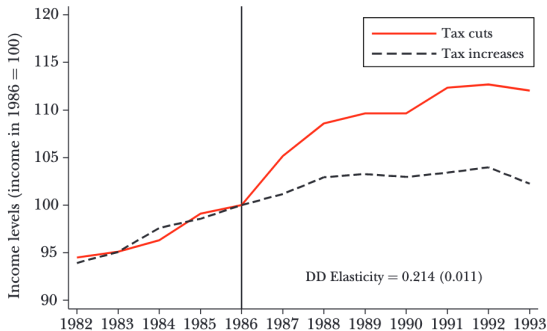
ABILITY TO CHEAT IMPORTANT!-II

B: Tax Take versus Fraction of Self-Employed and Employees in Evasive Jobs



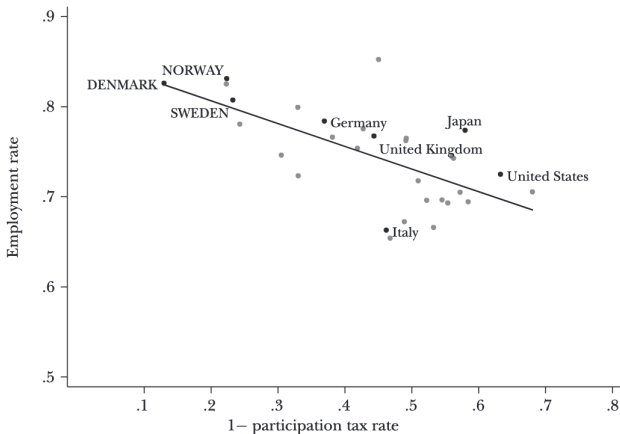
SEEMS LIKE ELASTICITY IS LOWER THAN OTHER COUNTRIES!

A: Labor Income Responses to 1987 Reform



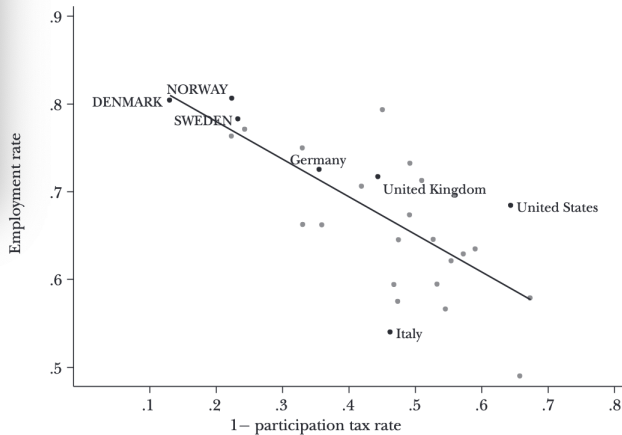
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A: Employment Rate versus Net-of-Tax Rate on Participation



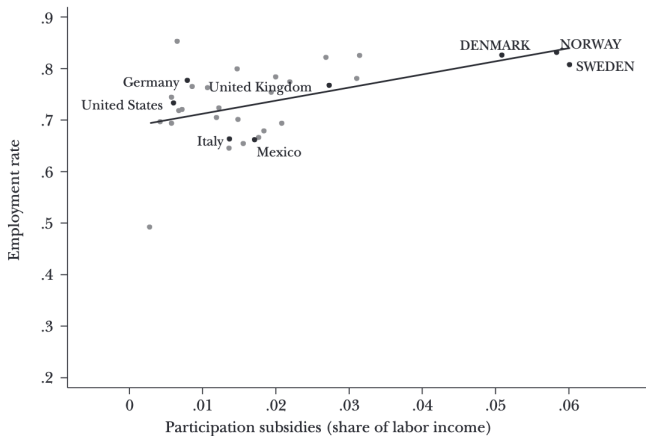
TAXES...INCREASE LABOR?

B: Female Employment Rate versus Net-of-Tax Rate on Participation



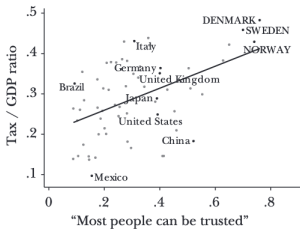
No! SCANDINAVIAN COUNTRIES SUBSIDIZE WORK

A: Employment Rate versus Participation Subsidies

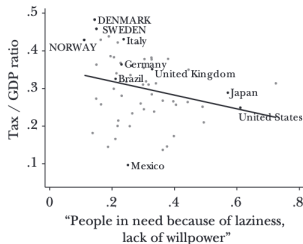


SOCIAL NORMS?

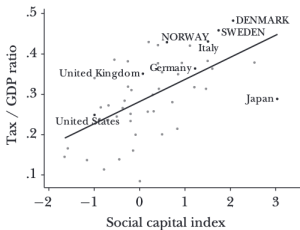
A: Tax Take versus Trust



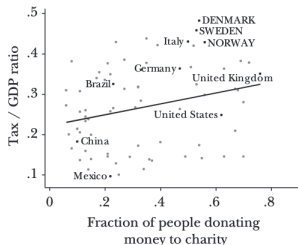
B: Tax Take versus Beliefs about the Poor



C: Tax Take versus Social Capital Index (Civic Participation, Voter Turnout, Crime)



D: Tax Take versus Charitable Donations



KLEVEN'S CONCLUSIONS

- ▶ US probably not going to become a small homogenous country of five million
- ▶ Instead, think hard about:
 - ▶ Tax evasion
 - ▶ Tax distortions/avoidance
 - ▶ Avoiding reduced labor supply