

## Conference Agenda

### 74th Annual Congress of the International Institute of Public Finance

**Date: Monday, 20/Aug/2018**

3:30pm - 6:00pm	Registration (also open on congress days from 8 am on)
3:30pm - 6:30pm Room A32, Main building	IIPF Board of Management Meeting I (for Board only)
7:30pm - 9:30pm	IIPF Board of Management Dinner (on invitation only)

**Date: Tuesday, 21/Aug/2018****9:00am - 9:30am**    **Opening Ceremony**Main auditorium  
(Juhlasali), Main  
building**9:30am - 10:30am**Main auditorium  
(Juhlasali), Main  
building**Plenary I: Keynote Lecture: Uta Schönberg (University College London) on "The Impact of Immigration on Regions and Workers"**Session Chair: **Wojciech Kopczyk**, Columbia University**10:30am - 11:00am**    **Coffee Break****11:00am - 1:00pm**Main auditorium  
(Juhlasali), Main  
building**A01: Firm Taxation****11:00am - 11:30am****Efficiency and the Taxation of Bank Profit****Motohiro Sato<sup>1</sup>, Robin Boadway<sup>2</sup>, Jean-Francois Tremblay<sup>3</sup>**<sup>1</sup>Hitotsubashi University; <sup>2</sup>Queen's University; <sup>3</sup>University of Ottawa

This paper explores the effect of the taxation of profits of banks and other financial intermediaries in a setting in which intermediation is inefficient. The inefficiencies arise from imperfect screening of lenders, which tends to limit lending, and government provision of deposit insurance, which encourages excessive lending. Three sorts of financial profit tax regimes are considered: R+F cash-flow taxation, standard corporate income taxation, and financial activities taxation. As well, the government regulates the amount of lending financial intermediaries can do relative to their equity. The combined effect of distorting profit taxes and financial intermediation inefficiencies on the efficiency of lending are studied, as well as the role of tax rates and regulated loan-equity ratios in mitigating inefficient lending.

 [Sato-Efficiency and the Taxation of Bank Profit-337.pdf](#)**11:30am - 12:00pm****Optional Formula Apportionment****Caterina Liesegang<sup>1</sup>, Marco Runke<sup>1,2,3</sup>**<sup>1</sup>University of Technology Berlin, Germany; <sup>2</sup>CESifo, Munich, Germany; <sup>3</sup>NoCeT, Bergen, Norway

In contrast to the first intuition, our paper shows with the help of a theoretical model that replacing Separating Accounting (SA) by Formula Apportionment (FA) in the taxation of multinational enterprises (MNEs) may mitigate profit shifting and tax competition, even if MNEs can choose between FA and SA. Each MNE trades off the additional benefits from profit shifting under SA against the lower compliance costs under FA. If the saved compliance costs outweigh the lost profit shifting opportunities, MNEs opt for FA and governments may increase their tax rates and mitigate detrimental tax competition. This result is obtained for sure in the limiting case where all countries are identical and choose the same corporate tax rate since then the benefits from profit shifting under SA completely vanish. The result still holds under country asymmetry as long as asymmetries are not too large.

 [Liesegang-Optional Formula Apportionment-473.pdf](#)**12:00pm - 12:30pm****The Relevance of Depreciation Allowances as a Fiscal Policy Instrument: A Hybrid Approach to CCCTB?****Kunka Petkova<sup>2</sup>, Alfons J. Weichenrieder<sup>1</sup>**<sup>1</sup>Goethe University Frankfurt, Germany; <sup>2</sup>Vienna University of Business and Economics

A major goal of the EU Commission in the area of direct taxation is the introduction of a common consolidated corporate tax base (CCCTB) in Europe. Such a system can reduce tax avoidance and compliance cost, but also limits national discretion in tax matters. In a sample of up to 47 countries, we find that the probability of a tax reform that improves the depreciation allowances increases if the macroeconomic situation is weak. This suggests that depreciation allowances are used as a fiscal instrument for stabilization. A common consolidated tax base deprives national governments to implement investment incentives via accelerated depreciation. This paper discusses the possible implementation of a hybrid system that combines features of formula apportionment and separate accounting. Such a hybrid system could still cope with transfer pricing problems and other tax planning issues, but would leave national discretion over depreciation allowances.

 [Petkova-The Relevance of Depreciation Allowances as a Fiscal Policy Instrument-288.pdf](#)**12:30pm - 1:00pm****The Efficiency Costs of Dividend Taxation with Managerial Firms****Marko Koethenbuegger, Michael Stimmelmayer**

ETH Zurich, Switzerland

The paper analyzes the efficiency costs of dividend taxation in a quiet-life corporate agency model. Unlike existing models, the quiet-life model is able to predict negative corporate investment responses for mature firms that are consistent with empirical analyses. We further show that investment changes following a rise

in dividend taxes might not be sufficient to infer, first, the efficiency cost of dividend taxation and, second, the financing regime of the firm that underlies the investment response, in contrast to insights from previous literature. We provide a testable implication to infer the mode of investment finance from investment responses. Finally, we relate the results to recent empirical findings in the literature on dividend taxation.

 [Koethenbuerger-The Efficiency Costs of Dividend Taxation with Managerial Firms-507.pdf](#)

**11:00am - 1:00pm** **A02: Income and Wealth Inequality**  
**Room B3107, Pinni B**  
**building**

**11:00am - 11:30am**

### **A Head-to-Head Comparison of Augmented Wealth in Germany and the United States**

**Timm Bönke<sup>1</sup>, Markus Grabka<sup>2</sup>, Carsten Schröder<sup>1,2</sup>, Edward N. Wolff<sup>3</sup>**

<sup>1</sup>Freie Universität Berlin, Germany; <sup>2</sup>German Institute for Economic Research; <sup>3</sup>New York University

We provide levels of, compositions of, and inequalities in household augmented wealth – defined as the sum of net worth and pension wealth – for two countries: the United States and Germany. Pension wealth makes up a considerable portion of household wealth: about 48% in the United States and 61% in Germany. The higher share in Germany narrows the wealth gap between the two countries: While average net worth in the United States (US\$337,000 in 2013) is about 1.8 times higher than in Germany, augmented wealth (US\$651,000) is only 1.4 times higher. Further, the inclusion of pension wealth in household wealth reduces the Gini coefficient from 0.892 to 0.701 in the United States and from 0.765 to 0.511 in Germany.

 [Bönke-A Head-to-Head Comparison of Augmented Wealth in Germany and the United States-485.pdf](#)

**11:30am - 12:00pm**

### **Looking for the missing rich: Tracing the top tail of the wealth distribution**

**Stefan Bach<sup>1,2</sup>, Andreas Thiemann<sup>3</sup>, Aline Zucco<sup>1</sup>**

<sup>1</sup>German Institute for Economic Research, DIW Berlin; <sup>2</sup>University of Potsdam; <sup>3</sup>European Commission - Joint Research Centre, Spain

We analyse the top tail of the wealth distribution in Germany, France, and Spain based on the first and second wave of the Household Finance and Consumption Survey (HFCS). Since top wealth is likely to be under-represented in household surveys, we integrate big fortunes from rich lists, estimate a Pareto distribution, and impute the missing rich. In addition to the Forbes list, we rely on national rich lists since they represent a broader base for the big fortunes in those countries. As a result, the top percentile share of household wealth in Germany jumps up from 24 percent to 31 percent in the first and from 24 to 33 percent in the second wave after top wealth imputation. For France and Spain, we find only a small effect of the imputation since rich households are better captured in the survey.

 [Bach-Looking for the missing rich-377.pdf](#)

**12:00pm - 12:30pm**

### **The Distribution of Income and Wealth in Sweden: A New View from the National Accounts**

**Sebastian Escobar<sup>1</sup>, Olle Hammar<sup>1</sup>, Daniel Waldenström<sup>2,3</sup>, Gabriel Zucman<sup>4</sup>**

<sup>1</sup>Uppsala University, Sweden; <sup>2</sup>Research Institute of Industrial Economics, Sweden; <sup>3</sup>Paris School of Economics, France; <sup>4</sup>University of California, Berkeley, United States

This paper presents new evidence on income and wealth inequality in Sweden over the past half century, 1968-2016. The basic contribution of the paper is to match individual register data with macroeconomic totals from the national accounts and to compute new estimates of pre- and post-tax/transfer distributions of income and wealth in Sweden. By matching individual register data for the full population to macro totals in the national accounts, it is found that only about 60 percent of all pre-tax labor income and 20 percent of all pre-tax capital income are covered in the official tax returns-based distributional statistics. In this project, we create new individual pre-tax income variables for each of the items that is missing in the individual statistics. Ultimately, we are able to construct an extended register database for the Swedish population, which covers the distribution of the entire national income in all years.

 [Escobar-The Distribution of Income and Wealth in Sweden-232.pdf](#)

**12:30pm - 1:00pm**

### **Time Discounting and Wealth Inequality**

**Thomas Epper<sup>2,3,1</sup>, Ernst Fehr<sup>3,1</sup>, Helga Fehr-Duda<sup>4,1</sup>, Claus Thustrup Kreiner<sup>1</sup>, David Dreyer Lassen<sup>1</sup>, Søren Leth-Petersen<sup>1</sup>, Gregers Nytoft Rasmussen<sup>1</sup>**

<sup>1</sup>Center for Economic Behavior and Inequality (CEBI), Department of Economics, University of Copenhagen; <sup>2</sup>University of St. Gallen, School of Economics and Political Science; <sup>3</sup>University of Zurich, Department of Economics; <sup>4</sup>University of Zurich, Department of Banking and Finance

We use standard experimental methods to elicit how much people discount the future for a large sample of middle-aged individuals in Denmark and link it to information about their real-life wealth over a 15-year period obtained from administrative registers. The results show that individuals with relatively low time discounting are consistently positioned higher in the wealth distribution. The association between time discounting and the position in the wealth distribution is significant and of the same magnitude as the association between length of education and the position in the wealth distribution, and it exists after controlling for education, school grades, income, initial wealth, parental wealth, and credit constraints. Our results are consistent with the prediction of standard life-cycle savings theory that differences in time preferences generate differences in savings behavior and thereby wealth inequality.

 [Epper-Time Discounting and Wealth Inequality-258.pdf](#)

11:00am - 1:00pm **A03: Taxation of Multinationals**

Room B3109, Pinni B  
building

11:00am - 11:30am

### Incentives for Multinational Corporations to Relocate Income

**Christopher Alexander Ludwig**<sup>1,2</sup>

<sup>1</sup>ZEW Mannheim, Germany; <sup>2</sup>University of Mannheim

This study explicitly controls for location- and firm-specific determinants for 'aggressive' profit shifting. It can help to explain the decreasing tax sensitivity of reported profits that is recently discussed in the literature. Anecdotal evidence has highlighted how complex group structures and firm characteristics of multinational corporations (MNC) provide incentives and enable them to relocate income. In an empirical analysis of a dataset of European multinationals from 2005 to 2015 with ownership and accounting information, it can be shown that the proportion of profit shifting determinants found in MNCs' group structure is increasing and that the statutory corporate income tax rate is not the only incentive to relocate income. A sample split reveals that the tax sensitivity of reported profits is higher for groups with access to profit shifting determinants. Robustness tests indicate that IP-Box-Regimes and the intensity of intellectual property in groups are the major determinants for 'aggressive' profit shifting.

 [Ludwig-Incentives for Multinational Corporations to Relocate Income-223.pdf](#)

11:30am - 12:00pm

### Economic Integration and Agglomeration of Multinationals' Production with Transfer Pricing

**Hayato Kato**<sup>1</sup>, **Hirofumi Okoshi**<sup>2</sup>

<sup>1</sup>Keio University, Japan; <sup>2</sup>University of Munich, Germany

Amid economic integration, global attention has been paid to spatial relocation of multinational enterprises' (MNEs') activities. We set up a two-country spatial model with different corporate tax rates where multinational enterprises can manipulate transfer prices in intra-firm trade. Using transfer pricing, MNEs can shift profits between domestic plants and foreign distribution centers. The production plants sell goods to the domestic market and export them to the foreign affiliates for distributing to their market. As trade costs decline, more MNEs locate their production plants in the low-tax country. However, a further decline reverses this location pattern. We also examine tax competition between two-unequal sized countries.

 [Kato-Economic Integration and Agglomeration of Multinationals Production with Transfer Pricing-348.pdf](#)

12:00pm - 12:30pm

### Implications Of Losses For Multinationals' Income Shifting

**Arnt Ove Hopland**<sup>1</sup>, **Petro Lisowsky**<sup>2</sup>, **Mohammed Mardan**<sup>3</sup>, **Dirk Schindler**<sup>1</sup>

<sup>1</sup>Norwegian School of Economics, Norway; <sup>2</sup>University of Illinois in Urbana-Champaign; <sup>3</sup>ETH Zurich

This paper models the tax-efficient behavior of a multinational corporation that has both profitable and loss-making affiliates. Until recently, the literature has largely neglected loss-making affiliates altogether, and the few studies that take them into account are data driven and lack a sound theoretical foundation. Our theoretical model shows that when multinational corporations do not have flexibility to adjust their income-shifting strategies within a tax year, in response to losses, they must take the expected, loss-adjusted tax rate differential into account rather than the larger statutory differential. Hence, empirical studies using the statutory tax rate differential might underestimate tax sensitivity. We also find that the degree of flexibility has important implications for where affiliates of (tax-aggressive) multinational corporations are placed in the profit distribution. This finding has particular importance for the recent strand of literature that uses bunching around zero profitability as a proxy for tax aggressiveness.

 [Hopland-Implications Of Losses For Multinationals Income Shifting-231.pdf](#)

12:30pm - 1:00pm

### Production Location of Multinational Firms under Transfer Pricing: The Impact of the Arm's Length Principle

**Hayato Kato**<sup>1</sup>, **Hirofumi Okoshi**<sup>2</sup>

<sup>1</sup>Keio University, Japan; <sup>2</sup>University of Munich, Germany

When multinational enterprises (MNEs) separate the geographical location of affiliates, they can shift profits between the affiliates by manipulating intra-firm prices of inputs. We show that if the international tax difference between the parent and the host countries is large, MNEs choose to separately locate their affiliates in the two countries. We also investigate the impact of the arm's length principle (ALP) on the location choice, which requires that the intra-firm price of inputs should be set equal to that of similar inputs for the independent downstream firms. The ALP may change the location choice of MNEs.

 [Kato-Production Location of Multinational Firms under Transfer Pricing-216.pdf](#)

11:00am - 1:00pm **A04: Climate Policy**

Room B4113, Pinni B  
building

11:00am - 11:30am

### "Endogenous Climate Coalitions And Free Trade - Building The Missing Link"

**Thomas Karl Kuhn, Radomir Pestow, Anja Zenker**

University of Technology Chemnitz, Germany

In this paper, we discuss the endogenous formation of climate coalitions in an issue-linkage regime. In particular, we propose to build a link to the issue of preferential free trade. Trade privileges exclusively granted to members of the climate coalition work as an incentive mechanism for countries to join in. A multi-stage strategic trade framework is used in which coalition (fringe) countries can dispose of a policy set comprising a discriminatory import-tariff on dirty goods as well as producer emission permits traded on a common (local) permits market. A fairly novel modelling of the preferential free trade area is incorporated which is at the core of our approach. We find strong support for the claim that trade liberalization can promote relatively large and effective climate coalitions compared to the single issue regime. As a policy implication, negotiations on international climate treaties and free trade arrangements should be interlinked.

[Kuhn-Endogenous Climate Coalitions And Free Trade-544.pdf](#)

11:30am - 12:00pm

### Home Bias in International Emissions Trading: Evidence from the EU ETS

Beat Hintermann<sup>1</sup>, Markus Ludwig<sup>2</sup>

<sup>1</sup>University of Basel, Switzerland; <sup>2</sup>University of Bayreuth, Germany

We examine the pattern of allowance trades in the European Union Emissions Trading Scheme using disaggregated trading data and document a significant and robust home market bias. The result points to informational transactions costs that increase when trading across national borders. Around 75 % of the home bias can be explained by the existing trade pattern in goods and services. The home bias furthermore differs across firms, implying that marginal abatement costs are not equalized across market participants. This suggests that realizing the full gains from trade of multinational emissions permit markets, requires additional institutions that facilitate cross-border trade.

[Hintermann-Home Bias in International Emissions Trading-128.pdf](#)

12:00pm - 12:30pm

### Unintended Technology-bias In Corporate Income Taxation - The Case Of Electricity Generation In Low-carbon Transition

Tibor Paul Hanappi, Luisa Dressler, Kurt Van Dender

OECD, France

This paper shows that CIT provisions can lead to different effective tax rates (ETRs) for technologies producing the same output but having different cost structures, under otherwise identical CIT provisions. It develops a framework for analysing the sources of the differences in ETRs and adapts existing models to calculate and compare forward-looking ETRs for carbon-neutral and carbon-intensive electricity generation technologies. Considering tax provisions for cost recovery in 36 countries, it finds that standard tax systems are technology neutral in case of debt-financed investments because the fact that capital allowances are based on nominal (rather than real) capital costs is offset by allowing deductibility for the full nominal (rather than real) cost of debt. However, the cost of equity finance is often not deductible; this implies that ETRs are higher for investments in capital-cost-intensive electricity generation, thus inducing an unintentional misalignment of the CIT system with decarbonisation objectives.

[Hanappi-Unintended Technology-bias In Corporate Income Taxation-291.pdf](#)

12:30pm - 1:00pm

### Optimal Energy Taxes and Subsidies in an Open Economy: Addressing the Problem of Carbon Leakage

Peter Birch Sørensen

University of Copenhagen, Denmark

This paper analyzes how a country pursuing an ambitious unilateral climate policy may contribute to a reduction in global CO<sub>2</sub> emissions in a cost-effective way. To do so its system of energy taxes and subsidies must account for leakage of emissions from the domestic to the foreign economy. We focus on leakage occurring via imports and exports of electricity and via shifts between domestic and foreign production of other tradable goods. The optimal tax-subsidy scheme is based on a consistent principle: Impose a uniform carbon tax on all additions to global emissions caused by changes in domestic production and consumption of energy, including additions to emissions occurring via shifts in international trade.

[Sørensen-Optimal Energy Taxes and Subsidies in an Open Economy-610.pdf](#)

11:00am - 1:00pm

Room B3110, Pinni B building

### A05: Voting, Policy and Electoral Rules

11:00am - 11:30am

### Party Effects on Residential Property Tax: Progressivity and Level of Taxation

Lars-Erik Borge, Luka Marcinko

Norwegian University of Science and Technology, Norway

Left-wing parties are supposed to favor a large public sector and an equal distribution of income. They are therefore expected to support high and progressive taxes. In this paper we test those hypotheses using data on property taxation in Norwegian municipalities. The Norwegian property tax is well suited for this purpose since the municipalities are free to choose the tax rate for the property tax and to make it more progressive by having a basic deduction. In the empirical analysis we utilize the RDD approach developed by Folke (2014). The results are robust to whether political influence is measured by seat share or the Banzhaf index. The most left-wing parties seem to be in favor of a high property tax. When it comes to the basic deduction, there are no significant party effects.

[Borge-Party Effects on Residential Property Tax-462.pdf](#)

11:30am - 12:00pm

**The Economic Effects of increasing the Term Length for U.S. Governors****Jonas Klarin**

Uppsala University, Sweden

This paper studies the effect on the public finances of increasing the term length from two to four years for United States governors. I estimate the effect in a staggered difference-in-differences setting using a novel panel data set over the years 1922 - 2016. I find that increasing the term length decreases total expenditures and revenues by ca. four per cent. The effect commences the year the states adopt four-year terms, i.e. when the last two-year term incumbent is in office, and can therefore be attributed to the behaviour of the governor, and not his or her competence. My interpretation is that the effect can be explained by increased incentives; with longer terms the value of holding office increase and consequently also the incentives to make an effort to be re-elected. This is, to the best of my knowledge, the first paper to analyse the effect of term lengths on the public finances.


 [Klarin-The Economic Effects of increasing the Term Length-260.pdf](#)

12:00pm - 12:30pm

**School Spending And Extension of The Youth Voting Franchise: Evidence From An Experiment In Norway****Ole Henning Nyhus, Bjarne Strøm**

Norwegian University of Science and Technology, Norway

We exploit a Norwegian Experiment in the 2011 local election to estimate the causal effect of changes in the youth share of the electorate on compulsory school spending. The voting age was reduced from 18 to 16 years in selected local governments (experimental governments), while voting age was kept at 18 in the rest (control governments). Using a difference in differences strategy, we find surprisingly that compulsory school spending decreased by approximately 2% in the experimental governments. The results are robust across a number of econometric specifications and robustness checks.

 [Nyhus-School Spending And Extension of The Youth Voting Franchise-542.pdf](#)

12:30pm - 1:00pm

**Conservative Politicians and Voting on Same-sex Marriage****Björn Kauder<sup>1</sup>, Niklas Potrafke<sup>1,2</sup>**<sup>1</sup>ifo Institute, Germany; <sup>2</sup>University of Munich, Germany

We examine whether conservative politicians are less likely to support same-sex marriage when they run for office in safe districts using new data based on a roll-call vote in the national German parliament. The results show that the margin of the majority for the incumbent in the previous election was a strong predictor for supporting same-sex marriage. When the majority increased by one percentage point, the likelihood of voting in favour of same-sex marriage decreased by around 1.3 percentage points. We conjecture that politicians are election-motivated – even when submitting roll-call votes on a matter of conscience.

 [Kauder-Conservative Politicians and Voting on Same-sex Marriage-353.pdf](#)

11:00am - 1:00pm

Room A1081, Pinni A building

**A06: Labor Supply and Tax-Benefit Policy**

11:00am - 11:30am

**Suddenly Married: Joint Taxation and the Labor Supply of Same-Sex Married Couples After U.S. v. Windsor****Elliott William Isaac**

University of Virginia, United States of America

A joint taxation system can exacerbate the deadweight loss of taxation due to labor supply responses, but evidence is scarce. I provide direct evidence of the efficiency costs and labor supply effects of joint taxation in the United States by leveraging tax variation created by federal same-sex marriage recognition following the 2013 *United States v. Windsor* Supreme Court ruling. I find hours responses to taxation among predicted primary earners and labor force participation responses among predicted secondary earners. I also show that joint taxation decreases efficiency and tax revenue compared to individual taxation, with larger effect sizes for equal-earning couples. My findings suggest that there are efficiency gains to lowering tax rates for secondary earners, but whether efficiency is worth the lower associated tax equity across households remains an open question.

 [Isaac-Suddenly Married-263.pdf](#)

11:30am - 12:00pm

**The Macro Labor Supply Elasticity Revisited: Integrating Taxes and Expenditures****Jan Luksic**

Goethe-Universität Frankfurt, Germany

This paper shows that labor tax system efficiencies need to be compared while accounting for how the government revenue is spent. To measure the extensive margin response to taxation, I assemble a large cross-country dataset covering all OECD countries and more than two decades. When not controlling for the country- and year-fixed effects, the extensive margin elasticities are negative. Once accounting for transfers, the elasticities are negative or at most flat, even with fixed effects. Once accounting for the expenditures on labor complements, I obtain positive extensive margin elasticities in the lower end of the expected range.

 [Luksic-The Macro Labor Supply Elasticity Revisited-119.pdf](#)

**12:00pm - 12:30pm****Work Incentives And The Efficiency Of Tax-Transfer Reforms Under Constrained Labor Supply****Benjamin Fischer<sup>1</sup>, Robin Jessen<sup>2</sup>, Viktor Steiner<sup>1</sup>**<sup>1</sup>Freie Universität Berlin, Germany; <sup>2</sup>RWI – Leibniz-Institut für Wirtschaftsforschung

Potential efficiency gains of policy reforms are limited if individuals cannot adjust their labor supply due to hours constraints. Using information on desired and actual hours of work, we formulate a discrete-choice model of constrained labor supply. Involuntary unemployment as well as over- and underemployment are modeled in a consistent way. Using data from the German Socio-Economic Panel and the microsimulation model STSM, we find that estimated own wage elasticities in the constrained model are substantially smaller than those obtained from the conventional one using actual hours. However, we show that constraints actually increase labor supply elasticities as elasticities derived from desired hours without constraints are even smaller. The reason is overemployment. We apply the model to evaluate two hypothetical budget neutral reforms of the German tax-transfer system aimed at improving incentives for the working poor.

 [Fischer-Work Incentives And The Efficiency Of Tax-Transfer Reforms Under Constrained Labor Supply-517.pdf](#)

**12:30pm - 1:00pm****Labor supply under participation and hours constraints. An extended structural model for policy evaluations****Kai-Uwe Mueller, Michael Neumann, Wrohlich Katharina**

DIW Berlin, Germany

The paper extends a discrete-choice labor supply model with participation and hours constraints. We identify restrictions by rich survey information (eligibility and search activities of individuals, actual and desired hours) providing a more robust identification of preferences and constraints. We distinguish various restrictions mechanisms: labor demand rationing, working hours norms varying across occupations, and insufficient public childcare on the supply side of the market. Preferences and restrictions are allowed to vary by and are related through observed and unobserved characteristics. We apply the empirical framework an in-work benefit for low-paid parents in the German institutional context. The benefit increases work incentives for secondary earners. We disentangle behavioural reactions into the pure incentive effect and the limiting impact of constraints at the intensive and extensive margin. We find that the in-work benefit for parents substantially indeed increases working hours of mothers of young children, especially when they have a low education.

 [Mueller-Labor supply under participation and hours constraints An extended structural model-301.pdf](#)

**11:00am - 1:00pm****Room B4115, Pinni B building****A07: Tax Competition I****11:00am - 11:30am****What Happened to CIT collection? Solving the Rates-Revenues Puzzle****Gaetan Nicodeme, Antonella Caiumi, Ina Majewski**

European Commission, Belgium

Despite sharp reductions in corporate income tax (CIT) rates worldwide, CIT revenues have not fallen dramatically in the last two decades. This paper investigates the recent developments in CIT in the European Union, by taking a closer look at the potential driving forces behind this puzzle. Using a unique dataset of national sectoral accounts, we decompose the CIT revenue to GDP ratio for the EU and find that while the decrease in the statutory rates has driven down tax collection, the effect was more than offset by a broadening of the taxable base and a slight increase in the size of the corporate sector. However, this result holds for the period 1995-2015 but not for the last decade where base broadening has not been able to match further cuts in rates.

 [Nicodeme-What Happened to CIT collection Solving the Rates-Revenues Puzzle-534.pdf](#)

**11:30am - 12:00pm****When Populism Meets Globalization: Analysis of Tax Competition****Daiki Kishishita, Satoshi Kasamatsu**

The University of Tokyo, Japan

The preference for extreme economic policy is a feature of populism. We study the causes and consequences of the extreme reduction of tax rates---a feature of right-wing populism---in the age of globalization. To this end, we construct a two-country asymmetric tax competition model in which the residents in one of the two countries do not know their policymaker's type. When politicians' reputation (i.e., reelection) concerns are high, a politician who implements extremely low taxation acquires a good reputation and thus a populist taxation policy arises. We show that globalization alters the properties of this populism. In particular, under tax competition, populism can improve welfare in terms of either the populist country or the whole world, whereas that is not the case in a closed economy.

 [Kishishita-When Populism Meets Globalization-245.pdf](#)

**12:00pm - 12:30pm****The Race for FDI: Corporate Tax Rates and Competitor's Attractiveness****Celine Azemar<sup>1</sup>, Rodolphe Desbordes<sup>2</sup>**<sup>1</sup>University of Glasgow, United Kingdom; <sup>2</sup>SKEMA

This paper revisits tax competition among governments by considering the role played by competitors attractiveness in terms of market size. Tax competition is investigated globally and within all the regions of the world and eight free-trade zones. Starting with European countries, we find evidence of strategic

interactions between the European governments over both corporate tax rates and market size. Importantly, the spatial lag of the GDP of neighbouring countries, which is negative, sheds new light on the nature of tax competition since the external market potential of a

European country is not perceived by governments as an asset but as a threat to their FDI attractiveness. Around the world, the spatial lag of GDP tends to be a stronger determinant of corporate taxes than the spatial lag of taxes. Tax competition appears to be indirect as it is partly determined by changes in the economic fundamentals of the neighbours.

[Azemar-The Race for FDI-408.pdf](#)

12:30pm - 1:00pm

### Investment Incentives and Tax Competition under Allowance for Growth and Investment (AGI)

Seppo Kari<sup>1</sup>, Jussi Laitila<sup>2</sup>, Olli Ropponen<sup>1</sup>

<sup>1</sup>VATT Institute for Economic Research, Finland; <sup>2</sup>Ministry of Finance, Finland

We employ a dynamic investment model to study the investment incentives of the Allowance for Growth and Investment (AGI) proposed by the European Commission in its two-step approach towards the Common Consolidated Corporate Tax Base (CCCTB). We show that the AGI strengthens investment incentives of companies in high-tax countries and decreases the CCCTB-induced investment push towards low-tax countries. Furthermore, we show that generous enough AGI reduces the tax competition between countries in case where a separate accounting (SA) tax system is replaced by the CCCTB system combined with AGI. Despite the positive implications of AGI on investment incentives and tax competition, the Allowance for Corporate Equity (ACE) performs slightly better in these respects. In addition the ACE also implies better neutrality properties than the AGI. However, the ACE is criticized on its possible implied tax revenue losses. Thus the trade-off between better incentives and larger revenue loss seems to remain.

[Kari-Investment Incentives and Tax Competition under Allowance-372.pdf](#)

11:00am - 1:00pm  
Room D11, Main  
building

### A08: Tax Avoidance and Evasion I

#### Can Wealth Taxation Work in Developing Countries? Quasi-Experimental Evidence from Colombia

Juliana Londono-Velez<sup>1</sup>, Javier Avila<sup>2</sup>

<sup>1</sup>University of California, Berkeley, United States of America; <sup>2</sup>Dirección de Impuestos y Aduanas Nacionales - DIAN (Colombian tax authority)

This paper studies responses to wealth taxes and enforcement using tax return data from Colombia in 1993–2016 linked with the leaked “Panama Papers.” First, we estimate elasticities of reported wealth with respect to (one minus) the tax rate, exploiting discrete jumps in wealth tax liability and reforms that vary exemption cutoffs and tax rates. We find immediate bunching responses to tax policy changes. Our short-term elasticities of 2 are driven predominantly by evasion. In spite of such large elasticities, the revenue lost due to behavioral responses is modest (20%). Second, our data indicate that the wealthiest taxpayers shelter their fortunes from taxation through offshore structures in tax havens. Finally, to investigate responses to enforcement, we exploit a tax amnesty program in 2015-17. Halfway through the program, the Panama Papers news stories broke, raising disclosures by 800%. Two-fifths of the wealthiest 0.01 percent disclosed hidden wealth and are paying more taxes.

[Londono-Velez-Can Wealth Taxation Work in Developing Countries Quasi-Experimental Evidence-202.pdf](#)

#### Can ICTs Increase Tax? Experimental Evidence from Ethiopia

Giulia Mascagni<sup>1</sup>, Andualem Mengistu<sup>2</sup>, Firew Woldeyes<sup>2</sup>

<sup>1</sup>Institute of Development Studies, International Centre for Tax and Development; <sup>2</sup>Ethiopian Development Research Institute

The widespread introduction of ICTs and digitalised data is one of the key developments amongst African tax administrations in recent years. However, little evidence is available on their effectiveness in practice and on how taxpayers respond to these changes. This paper fills this gap by reporting three sets of results from Ethiopia. First, we show that the available data is still not used to its full potential, despite modern ICT systems in place. Second, we find that a technological innovation, the introduction of electronic sales registration machines, had a positive impact both on tax revenue and tax records' accuracy. However, taxpayers responded to machines by simultaneously adjusting both reported income and deductible costs, thus reducing the potential revenue gains. Third, we use a letter experiment to show that the main mechanism through which the machines increase tax revenue is tax compliance, rather than any change in real business activity.

[Mascagni-Can ICTs Increase Tax Experimental Evidence from Ethiopia-453.pdf](#)

#### Social networks and tax avoidance: Evidence from a well-defined Norwegian tax shelter

Annette Alstadsæter<sup>1</sup>, Wojciech Kopczuk<sup>2</sup>, Kjetil Telle<sup>3</sup>

<sup>1</sup>Norwegian University of Life Sciences, Norway; <sup>2</sup>Columbia University, USA; <sup>3</sup>Statistics Norway, Norway

In 2005, over 8% of Norwegian shareholders transferred their shares to new (legal) tax shelters intended to defer taxation of capital gains and dividends that would otherwise be taxable in the aftermath of 2006 reform. Using detailed administrative data we identify family networks and describe how take up of tax avoidance progresses within a network. A feature of the reform was that the ability to set up a tax shelter changed discontinuously with individual shareholding of a firm and we use this fact to estimate the causal effect of availability of tax avoidance for a taxpayer on tax avoidance by others in the network. We find that take up in a social network increases the likelihood that others will take up. This suggests that taxpayers



affect each other's decisions about tax avoidance, highlighting the importance of accounting for social interactions in understanding enforcement and tax avoidance behavior.

[Alstadsæter-Social networks and tax avoidance-155.pdf](#)

11:00am - 1:00pm

Room B4116, Pinni B building

**A09: Immigration**

11:00am - 11:30am

### **Does immigration affect public spending? Empirical evidence from West Germany**

**Orlando Zaddach**

Universität Erlangen-Nürnberg, Germany

This paper presents the impact of non-European immigration on local public spending in West Germany. To identify the causal effect of immigration on public expenditures I apply an instrumental variable approach that uses migration outflows towards all other destination countries than Germany to instrument endogenous immigration inflows to Germany. My results indicate that several types of public services are reduced, namely public spending on schools, hospitals and administration. This negative relationship seems to result from the fact that people derive less utility from public good provision and redistribution in societies with high ethnic diversity, which is consistent with the findings of previous studies.

[Zaddach-Does immigration affect public spending Empirical evidence-490.pdf](#)

11:30am - 12:00pm

### **Immigration, Culture and school performance**

**Jon Marius Vaag Iversen<sup>1</sup>, Hans Bonesrønning<sup>1</sup>, Rune Sørensen<sup>2</sup>, Johan From<sup>2</sup>**

<sup>1</sup>Norwegian University of Science and Technology, Norway; <sup>2</sup>BI Norway

The paper analyzes the influence of cultural background on students' mathematics performance using data on second-generation immigrants to Norway. The test scores vary considerably by parents' country of origin, and differences are larger for students with two immigrant parents than for those with one.

We regress register data on student test scores against the cultural indicators from the World Value Survey. Our identification strategy exploits the different degree of cultural exposure of students with respectively one or two immigrant parents. Students from cultures where people value longer-term gains and encourage children's independence rather obedience have better at school performance.

[Iversen-Immigration, Culture and school performance-546.pdf](#)

12:00pm - 12:30pm

### **Trust towards Institutions among European Immigrants**

**Ilpo Kauppinen**

VATT Institute for Economic Research, Finland

This paper studies individual trust towards institutions among migrants residing in 34 different countries using data from the European Social Survey. It is established in the literature that individual trust towards other people is culturally transmitted from the countries of origin of immigrants, and the purpose is to shed light on whether a similar pattern can be established for trust towards institutions. Trust towards two international institutions, the European Parliament and the United Nations, is positively associated to average trust towards these institutions in the migrant's countries of origin. Individual trust towards national institutions is also associated with the corresponding trust levels in the countries of origin, but in a surprising way; individuals originating from countries with high trust towards the police or the legal system tend to be less trustful towards those institutions and the other way around. I don't find evidence of intergenerational transmission of trust towards institutions.

[Kauppinen-Trust towards Institutions among European Immigrants-431.pdf](#)

12:30pm - 1:00pm

### **Occupational Language Requirements and the Effects of Immigration**

**Maria Brunborg Hoen**

Frisch Centre, Norway

I use individual-level register data to estimate the impact of immigration on natives' labor earnings. I exploit the immigration surge Norway after the enlargement of the European Union. OLS estimation shows a small negative correlation between natives' earnings and the growth in occupations' share of Eastern European workers. The OLS is however biased due to selection of immigrants into occupations. I instrument for the endogenous immigrant share with occupation-specific requirements for language skills. Language requirements exposed native workers differently to competition from the new EU labor. Language barriers are particularly strong in Norway with a linguistically distant language from the Eastern European languages. A 2SLS estimation shows strong negative effects of EU immigration on the labor earnings of natives in occupations with low language requirements. Results are robust to a large set of robustness checks.

[Hoen-Occupational Language Requirements and the Effects-576.pdf](#)

11:00am - 1:00pm

Room B4117, Pinni B building

**A10: Income and Profit Shifting**

11:00am - 11:30am

### **Profit-shifting and Investment under Interest-limitation Rules: Does the EBITDA Rule Outperform the EBIT Rule?**

**Seppo Kari, Olli Ropponen**

VATT Institute for Economic Research, Finland

This paper employs a dynamic investment model to study some of the key design aspects of interest limitation rules proposed to prevent profit-shifting by multinational enterprises (MNEs). The focus is on how the two main variants of Earnings Stripping Rules (ESR) - the EBIT rule and the EBITDA rule - affect profit-shifting and investment incentives, and which of the two is preferable from society's point of view. We find that the rules affect incentives differently. Under the EBITDA rule the cost of capital is lower and more sensitive to the size of the fixed ratio. Further, under this rule the cost of capital depends on the useful life of assets, while the EBIT rule is neutral in this respect. We show a condition for the optimality of the EBITDA rule assuming homogenous capital and discuss the case of several assets with differing useful lives.

 [Kari-Profit-shifting and Investment under Interest-limitation Rules-430.pdf](#)

**11:30am - 12:00pm**

### **How does information matter in fighting against profit shifting? ---- The implication of Country-by-Country Reporting**

**Fangying Xu**

Goethe University Frankfurt, Germany

As the first Country-by-Country Reporting (CbCR) was filed in the end of the year 2017, almost 100 jurisdictions now involve in the automatic exchange of tax information. Whether

CbCR is beneficial for a high tax country is however unclear. This paper models multinational enterprises' (MNEs) response in profit shifting and information provision in tax filing requirements. While CbCR provides more scrutiny of financial statements of MNEs, it may not only enlarge the tax base of a high tax country by obtaining tax revenues from profits shifted to tax havens, but may also reduce the incentive for MNE to invest due to higher costs of tax filing.

 [Xu-How does information matter in fighting against profit shifting ---- The implication-568.pdf](#)

**12:00pm - 12:30pm**

### **Small firms and tax incentives: Effects on (real) economic outcomes**

**Allisa Koivisto<sup>1</sup>, Jarkko Harju<sup>2</sup>, Tuomas Matikka<sup>2</sup>, Li Liu<sup>3</sup>**

<sup>1</sup>University of Helsinki, Finland; <sup>2</sup>VATT Institute of Economic Research; <sup>3</sup>International Monetary Fund

Many developed countries have reduced their dividend and corporate tax rates in order to increase economic activity and real investments. However, the empirical evidence of the effects of these taxes is mixed. In this paper, we present new evidence of how relatively small Finnish firms respond to dividend taxation. Using the bunching method, we find exceptionally clear dividend responses to the dividend tax rate kink points. However, we do not find real investment or output responses, suggesting that dividend taxes do not distort real economic decisions of firms.

 [Koivisto-Small firms and tax incentives-327.pdf](#)

**12:30pm - 1:00pm**

### **When Heirs Disinherited themselves: Evidence from a Swedish tax loophole**

**Sebastian Escobar<sup>2</sup>, Henry Ohlsson<sup>3</sup>, Håkan Selin<sup>1</sup>**

<sup>1</sup>Institute for Evaluation of Labour Market and Education Policy (IFAU), Sweden; <sup>2</sup>Uppsala University;

<sup>3</sup>Sveriges Riksbank

Under the Swedish inheritance tax regime, which was in place up to 2004, heirs had an option to lower the inheritance tax bill by transferring newly received wealth to their children. The heirs were, however, not allowed to earmark these generationskipping transfers for specific uses, and they had to give the same amount to all children. Hence, parents were facing a trade-off between keeping control over the newly inherited wealth and minimizing tax payments. We document that a large number of heirs entirely avoided inheritance taxes by reducing their taxable inheritances down to the basic exemption, where we observe substantial and sharp

bunching of heirs. Both intensive and extensive margin behavior indicate that heirs have a preference for keeping control over their wealth. We also analyze the crucial role of co-ordination within sibling groups of heirs.

 [Escobar-When Heirs Disinherited themselves-361.pdf](#)

**11:00am - 1:00pm**

**Room B1096, Pinni B building**

**A11: Altruism and Social Norms**

**11:00am - 11:30am**

### **The last will: Who do we really care about?**

**Oscar Carl Erixson, Mikael Elinder, Per Engström**

Uppsala University, Sweden

This paper shows that 87% of the estates of unmarried people who passed away in Sweden are transferred to family members. The remainder is shared between non-relatives and organizations. Charitable organizations receive only 6% of the estate value. Among decedents with children only 0.4% testate wealth to charitable organizations and these organizations get only 0.2 % of the wealth. This study is the first to show how estates are divided between family members, non-relatives and charitable organizations, using population wide data from estate records. Our results strongly support that, when reciprocal altruism is ruled out, kin-based altruism dwarfs altruism towards non-relatives.

 [Erixson-The last will-360.pdf](#)

**11:30am - 12:00pm**

**Altruism And Structure Of Values: An Online Experimental Investigation****Lidia Siri, Luca Gandullia, Paolo Parciasepe, Emanuela Lezzi**

University of Genoa, Italy

Altruistic behaviours may be affected by personal concerns for the welfare and interests of others. We use an online real-donation allocation decision experiment to explore how donors (pure altruists, warm-glow givers, and pure egoists) differ in their structure of values and whether their prosocial behaviour is guided by specific sets of values and motivations. We find that donors give a greater importance to the relationship with others and they identify themselves to norms and attitude of a community, responding to the values of tradition, conformity, benevolence and universalism. On the contrary, non-donors do not seem to pursue such types of goals and therefore are not willing to make a donation. Moreover, we find that impure altruists wish to achieve goals of self-enhancement through altruistic behaviours like pure warm-glow givers do and they make a donation because it represents a genuine altruistic act similarly to pure altruists.

 [Siri-Altruism And Structure Of Values-401.pdf](#)
**12:00pm - 12:30pm****Et Tu, Brute?: Spurious Behavior of Public Sector Workers in Japan****Naoko Okuyama, Mototsugu Fukushige**

Osaka University, Japan

We study the charitable behavior of public sector workers in Japan, particularly in relation to their responses to remuneration reduction for postdisaster reconstruction following the 2011 Great East Japan Earthquake. Our empirical investigation shows that public sector workers made considerably smaller contributions to disaster relief and postdisaster reconstruction than other workers. Furthermore, the findings show that they did not behave prosocially in both normal and disaster times. Their prosocial disposition that is believed as their vocational characteristics can be affected by events such as unexpected emergencies and consequent monetary shocks.

 [Okuyama-Et Tu, Brute-242.pdf](#)
**12:30pm - 1:00pm****Social Fundraising****A. Abigail Payne<sup>1</sup>, Kimberley Scharf<sup>2</sup>, Sarah Smith<sup>3</sup>**<sup>1</sup>University of Melbourne, Australia; <sup>2</sup>University of Birmingham, UK; <sup>3</sup>University of Bristol, UK

Fundraising encourages voluntary contributions to public goods. The fundraising ask may come from an individual, asking members of their social group to donate to a charity. This type of peer-to-peer fundraising is not new, but technology has reduced its cost. Social fundraising is also combined with mass participation events. For these events, what happens to the amount of money that is raised? Does the increase in fundraisers raise total donations to the same charity and/or reduce donations to fundraisers for other charities? We use a unique UK data set that captures fundraising pages to the biggest mass event in the world and other mass events. We find fundraising competition between participants within mass events raising money for the same charity, but the intensity of this competition is low. We observe no effect on donations to fundraisers for other charities from an increase in mass event participants.

 [Payne-Social Fundraising-140.pdf](#)
**11:00am - 1:00pm****Room D13, Main building****A12: Health**Discussant Paper 4: **Nuria Badenes-Plá**, Instituto de Estudios Fiscales**11:00am - 11:30am****Effects of Healthcare District Secessions on Costs, Productivity and Quality of Services****Mika Kortelainen<sup>1</sup>, Simon Lapointe<sup>1</sup>, Kalevi Luoma<sup>1</sup>, Antti Moisio<sup>2</sup>**<sup>1</sup>VATT Institute for Economic Research, Finland; <sup>2</sup>Finnish Council of Regulatory Impact Analysis

Empirical evidence on economies of scale in healthcare is mostly based on the cost effects of hospital mergers. This paper approaches the economies of scale issue by analysing the secessions of Finnish healthcare districts, which are responsible for providing primary healthcare services to the residents of their member municipalities. We use the difference-in-difference approach to evaluate the impacts of healthcare district secessions on costs, productivity and quality of primary healthcare services in Finland between 1990 and 2003. To address potential non-random treatment assignment of secessions, we also utilize propensity score difference-in-difference approach. Our results show that primary healthcare costs have grown considerably faster for the seceded healthcare districts than for the non-seceded ones, while outputs have increased more for the former than for the latter group. Interestingly, we find the impact of secessions to be insignificant on the productive efficiency and quality of primary healthcare services.

 [Kortelainen-Effects of Healthcare District Secessions on Costs, Productivity and Quality of Services-418.pdf](#)
**11:30am - 12:00pm****The effect of weight on labor market outcomes: an application of genetic instrumental Variables****Petri Böckerman<sup>1,2,3</sup>, John Cawley<sup>4,3</sup>, Jutta Viinikainen<sup>1</sup>, Terho Lehtimäki<sup>5,6,7</sup>, Suvi Rovio<sup>8</sup>, Ilkka Seppälä<sup>5</sup>, Jaakko Pehkonen<sup>1</sup>, Olli Raitakari<sup>8,9</sup>**<sup>1</sup>University of Jyväskylä; <sup>2</sup>Labour Institute for Economic Research; <sup>3</sup>IZA; <sup>4</sup>Cornell University, IZA;<sup>5</sup>University of Tampere; <sup>6</sup>Fimlab Laboratories; <sup>7</sup>Finnish Cardiovascular Research Center; <sup>8</sup>University of Turku; <sup>9</sup>Turku University Hospital

This paper contributes to the literature on the economic consequences of obesity by using a novel instrument: genetic risk score, which reflects the predisposition to higher body mass index across many genetic loci. We estimate IV models of the effect of BMI on labor market outcomes using Finnish data that

have many strengths: genetic information, body mass index that is measured rather than self-reported, and data on earnings and social income transfers that are from administrative tax records and are thus free of the problems associated with non-response, self-reporting error or top-coding. The results of the IV models indicate that a one-unit increase in BMI is associated with 6.6% lower wages, 1.7% fewer years employed, and a 3.5% higher probability of receiving any social income transfers. Interestingly, we cannot reject the null hypothesis of no effect when we use a newer, broader, genetic risk score. We conclude with a discussion of policy implications.

[Böckerman-The effect of weight on labor market outcomes-368.pdf](#)

**12:00pm - 12:30pm**

### Assessing the impact of the “Mais Medicos” program on health care, morbidity and mortality in Brazil

**Enlison Mattos, Debora mazetto**

Fundacao Getulio Vargas, Brazil

The “Mais Médicos” Program was launched by the federal government in 2013 with the main objective of reducing the shortage of physicians in regions of socioeconomic vulnerability in Brazil. Since then, the program has been attracting interest in evaluating its effectiveness on the localities adhered. This paper aims to measure the effects generated by the “Mais Médicos” Program on health indicators of Brazilian municipalities from an econometric approach of policy evaluation. Using a difference-in-differences methodology, the effects on indicators of basic health care, morbidity and mortality were analyzed from the Program data between 2013 and 2015. We find evidences that the “Mais Médicos” Program has positive effects on the primary healthcare indicators, particularly on appointments, consultations, referrals, and examinations, and negative effects over some indicators of morbidity. However, the Program does not seem to have been able to reduce mortality in the municipalities.

[Mattos-Assessing the impact of the “Mais Medicos program-137.pdf](#)

**12:30pm - 1:00pm**

### Reality Check: The Effects of a National Health Information Technology on Prescription Drug Abuse

**Petri Böckerman<sup>2</sup>, Mika Kortelainen<sup>3</sup>, Liisa Laine<sup>4</sup>, Mikko Nurminen<sup>1</sup>, Tanja Saxell<sup>3</sup>**

<sup>1</sup>Turku School of Economics, Finland; <sup>2</sup>JSBE, Labour Institute for Economic Research, Finland, and IZA;

<sup>3</sup>VATT Institute for Economic Research, Finland; <sup>4</sup>University of Washington, United States of America, and JSBE

This paper analyzes the mechanisms through which e-prescriptions affect patient health in the context of benzodiazepines (BZD) -- a commonly abused group of addictive drugs. To identify the causal effects, we exploit a gradual and plausibly exogenous rollout of a national e-prescription system across regions over the course of five years in the Finnish setting. Using exceptionally rich patient-level register data, we first document that the reform caused worse health outcomes related to prescription drug abuse among younger patients and those with abuse history. We then show that this effect arises partly from an increased BZD use because of easier renewal of e-prescriptions compared to conventional paper prescriptions. These effects call for tightening renewal and prescribing policies of highly addictive prescription drugs in newly-established e-prescription systems.

[Böckerman-Reality Check-436.pdf](#)

**11:00am - 1:00pm**  
**Room D14, Main building**

## A13: Theoretical Political Economics

**11:00am - 11:30am**

### Interregional Negotiations and Strategic Delegation under Government Subsidy Schemes

**Ryusuke Shinohara**

Hosei University, Japan

We examine whether a strategic delegation problem in interregional negotiations can be solved by a governmental policy. As a strategic delegation problem, it is well known that when an interregional negotiation is delegated to representatives, each region strategically elects its representative, which results in inefficient negotiation outcomes. Here, we focus on a cost-matching grant, which is a kind of subsidy policy. We find that there is not necessarily an optimal cost-matching grant that can restore the efficiency of negotiation outcomes because the introduction of the grant generates a new kind of manipulation of breakdown outcomes. We further show that if a representative can be re-elected after the negotiation breaks down, then the breakdown outcome is coordinated. In this case, there is an optimal cost-matching grant that can achieve an efficient allocation through negotiation.

[Shinohara-Interregional Negotiations and Strategic Delegation under Government Subsidy Schemes-204.pdf](#)

**11:30am - 12:00pm**

### On the Political Economy of Compulsory Education

**Alessandro Balestrino<sup>1,3</sup>, Lisa Grazzini<sup>2</sup>, Annalisa Luporini<sup>2,3</sup>**

<sup>1</sup>University of Pisa, Italy; <sup>2</sup>University of Florence; <sup>3</sup>CESifo

We consider an economy with two categories of agents: entrepreneurs and workers. In laissez-faire, the former gain from having their children educated, while the latter, although they may profit from their own education, have no interest in sending their children to school. We first characterise the preferred education policy-cum-redistributive taxation for the two groups, and find that entrepreneurs favour a compulsory education policy while workers prefer a purely redistributive taxation scheme. Each group however would like the policy to be entirely financed by the other group. Then, we introduce a political process with probabilistic voting and verify that an equilibrium with both a compulsory education policy and

some redistribution may exist in which the workers are constrained but the entrepreneurs, who benefit from hiring educated workers, are not.

[Balestrino-On the Political Economy of Compulsory Education-171.pdf](#)

**12:00pm - 12:30pm**

### **Sanctioning, Selection and Pivotality - Theory and Experimental Results**

**Kai A Konrad, Raisa Sherif**

Max Planck Institute for Tax Law and Public Finance, Munich, Germany

We study the role of pivotality beliefs in majoritarian voting for an incumbent's accountability choice and voters' selection and sanctioning incentives in theory and in a laboratory experiment. Pivotality considerations may support equilibria with accountability and equilibria that cultivate favored majorities. Experimental voting behavior is broadly in line with a theory suggesting that selecting the better candidate matters for voter choices, but retrospective voting behavior is also present and is only slightly less pronounced if there is a selection incentive. Pivotality beliefs are partially shaped by whether incumbent politicians treat all voters alike, or cultivate a favored majority. In this latter case minority voters think they are less likely to be pivotal than the majority voters. Also, the minority voters are less likely to be in line with existing selection incentives of voting for the incumbent. We also confirm that the behavior of incumbents reflects the observed voting behavior.

[Konrad-Sanctioning, Selection and Pivotality-480.pdf](#)

**12:30pm - 1:00pm**

### **Negative Voters? Electoral Competition with Loss-Aversion**

**Ben Lockwood, James Rockey**

Warwick, United Kingdom

This paper makes three contributions. First, it presents some US evidence that voters respond in different ways to positive and negative changes in economic outcomes. Second, we show that this asymmetric response can be modeled as voter loss-aversion relative to the status quo, and we study how this impacts on electoral competition. We show that it has effects which are qualitatively different from incumbency advantage, notably policy rigidity and platform moderation. One further distinct testable implication of loss-aversion is that incumbents adjust less than challengers to "partisan tides" i.e. shifts in voter preferences, and as a result, favorable (unfavorable) preference shifts, from the point of view of the incumbent, intensify (reduce) electoral competition. We find empirical support for these using data from US state legislatures.

[Lockwood-Negative Voters Electoral Competition with Loss-Aversion-191.pdf](#)

**11:00am - 1:00pm**  
**Room A07, Main building**

## **A14: Fiscal Policy and Fiscal Outcomes**

**11:00am - 11:30am**

### **The incidence of fiscal rules: Evidence from Italian municipalities**

**Zareh Asatryan<sup>1,2</sup>, Matteo Alpino<sup>2</sup>, Sebastian Blesse<sup>2</sup>, Nils Wehrhöfer<sup>1</sup>**

<sup>1</sup>University of Mannheim, Germany; <sup>2</sup>Centre for European Economic Research (ZEW), Germany

We exploit the reform of a fiscal rule applied to Italian municipalities in order to examine its distributional impact. The introduction of a new population cutoff, above which jurisdictions have to comply with the rule, gives rise to a Difference-in-Discontinuity design. Since Italian municipalities have substantial tax autonomy, including the possibility to levy a non-linear income surcharge, we are able to identify differential effects along the income distribution. Preliminary results suggest that municipalities mostly raised taxes on middle- and high-income households.

[Asatryan-The incidence of fiscal rules-439.pdf](#)

**11:30am - 12:00pm**

### **The Volatility of the Tax Buoyancy and the Distortion of Fiscal Policy**

**Hyejeong Sim**

National Assembly Budget Office in Korea, Korea, Republic of (South Korea)

Based on a sample of OECD countries, this paper finds that tax revenue is considerably more volatile with changes in GDP after the 1990s than before the 1990s. This paper found that higher volatility of tax buoyancy is associated with a higher degree of procyclicality. Also, this tendency became evident after the 1990s when the volatility of tax buoyancy became larger. In addition, this tendency appeared to be different between G7 countries and non G7 countries. In non G7 countries, the procyclicality increased after the 1990s. Meanwhile, In G7 countries, there are asymmetries in the behavior of fiscal policies, with government spending being procyclical in economic up phases, while displaying a pronounced countercyclical pattern in economic recessions after the 1990s.

[Sim-The Volatility of the Tax Buoyancy and the Distortion of Fiscal Policy-272.pdf](#)

**12:00pm - 12:30pm**

### **Solving the Twin Deficit Puzzle: Evidence from a Panel of OECD Countries**

**Christian Breuer<sup>1</sup>, Chang Woon Nam<sup>2</sup>**

<sup>1</sup>Chemnitz University of Technology, Germany; <sup>2</sup>ifo Institute, Germany

Recent research is less than conclusive when it comes to the empirical test of the twin-deficit hypothesis. While the results based on the action-based approach support this hypothesis, those based on conventional measures find little or no evidence of a twin-deficits linkage. We apply a new conventional (CAPB-based) measure of fiscal policy, which is less prone to endogeneity issues, and find that a 1-percent of GDP fiscal consolidation leads to the improvement of the current account-to-GDP ratio by ca 0.8 percent of GDP, while previous research based on conventional measures found a relationship of only

0.1-0.3 percentage points. The key difference compared to previous findings is the effect of investment, suggesting that previous results based on conventional measures are biased towards underestimating the twin-deficit link. The results are in-line with previous evidence based on narrative measures of fiscal policy.

[Breuer-Solving the Twin Deficit Puzzle-497.pdf](#)

**12:30pm - 1:00pm**

### **On the relationship between public and private R&D - Evidence from Germany**

**Leonie Hug<sup>1</sup>, Martin Simmler<sup>1,2</sup>**

<sup>1</sup>University of Oxford, United Kingdom; <sup>2</sup>DIW, Germany

In this paper we assess the impact of public R&D carried out by universities and government funded research institutes on firm R&D using patent application data on the county and firm level in Germany. To address the endogeneity of public R&D we implement an instrumental variable estimator that uses lagged institutional funding for research institutes and central service staff of universities as excluded instruments. We find that one additional public patent generates four additional firm patent applications in the average county with non-zero public patents. Further, we find that the increase in firm R&D is driven along the extensive margin. We estimate the public costs per firm patent to be between 0.7 and 1 million EURO, which is substantially less than the implied public costs per firm patent using R&D tax credits based on recent estimates.

[Hug-On the relationship between public and private R&D-442.pdf](#)

**11:00am - 1:00pm**

**Room Paavo Koli,  
Pinni A building**

### **A15: Evaluation of Policy Reforms**

**11:00am - 11:30am**

### **The (Displacement) Effects of Spatially Targeted Enterprise Initiatives: Evidence from UK LEGI**

**Elias Einio<sup>1</sup>, Henry G. Overman<sup>2</sup>**

<sup>1</sup>VATT & CEP/LSE, Finland; <sup>2</sup>London School of Economics

This paper assesses the effects of Local Enterprise Growth Initiative (LEGI), a significant place-based intervention in the UK. To gain identification, we use panel data and regression discontinuity design based on the deprivation rank rule that determined area eligibility. We detect no overall effects on employment in treated Local Authorities, but data at fine spatial scale reveal a significant displacement of employment at the treatment boundary, corresponding to at least around 10% of local employment. The results are consistent with the view that indirect negative effects of place-based policies can substantially reduce (or in this case eliminate) any net benefits.

[Einio-The \(Displacement\) Effects of Spatially Targeted Enterprise Initiatives-556.pdf](#)

**11:30am - 12:00pm**

### **Does Regulation Trade-Off Quality against Inequality? The Case of German Architects and Construction Engineers**

**Kristina Strohmaier<sup>1</sup>, Davud Rostam-Afschar<sup>2</sup>**

<sup>1</sup>University of Tübingen, Germany; <sup>2</sup>University of Hohenheim, Germany

We exploit an exogenous price increase by about 10% for architectural services to answer the question how price regulation affects income inequality and service quality. Using data from the German microcensus from 2006 to 2012, we find a significant reform effect of 8% on personal net income and on inequality for self-employed architects and construction engineers. This group moved from the second lowest to the highest quintile of the net income distribution. This increase in inequality is associated with a deterioration of service quality. The reform reduced average scores of a peer ranking for architects by -18%.

[Strohmaier-Does Regulation Trade-Off Quality against Inequality The Case-145.pdf](#)

**12:00pm - 12:30pm**

### **The Effects of Working Hours Reduction on Health and Labour Supply - Evidence from Finnish Part-time Pension Program**

**Terhi Helena Ravaska**

Labour Institute for Economic Research, University of Tampere

This paper considers the effects of reduced working hours on health-related factors such as purchase of prescription drugs, sickness diagnosis and sickness benefit spells for the elderly workers. The paper exploits the part-time retirement scheme that was reformed in 1998 and decreased the lower eligibility age. Before the reform individuals could take the part-time pension from the age of 58 onward while after the reform this age was reduced to 56. Two methods are used: a difference-in-difference estimation and instrumental variable technique. I find that the reform increased the purchases of prescription drugs in the treated cohorts by small amount. The reform did not affect the long (over 10 days) sickness absences.

[Ravaska-The Effects of Working Hours Reduction on Health and Labour Supply-539.pdf](#)

**12:30pm - 1:00pm**

### **Using a Kinked Policy Rule to Estimate the Effect of Experience Rating on Disability Inflow**

**Tomi Kyyrä, Tuuli Paukkeri**

VATT Institute for Economic Research, Finland

	<p>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 comprehensive matched employer-employee panel data, we estimate the effects of experience rating on the inflow to sickness and disability benefits. We find that experience rating has little or no effect on either of these outcomes.</p> <p><a href="#">Kyrrä-Using a Kinked Policy Rule to Estimate the Effect-412.pdf</a></p>
1:00pm - 2:00pm	<b>Lunch</b>
2:00pm - 4:00pm Room B3107, Pinni B building	<p><b>B01: Tax Coordination and Tax Havens</b></p> <p><b>2:00pm - 2:30pm</b></p> <p><b>Are Moderate Leviathans Harmful to Tax Coordination?</b>  <b>Jun-ichi Itaya<sup>1</sup>, Chikara Yamaguchi<sup>2</sup></b>  <sup>1</sup>Hokkaido University, Japan; <sup>2</sup>Hiroshima University, Japan</p> <p>This paper investigates how the sustainability of partial tax coordination among several governments is affected when the objective of governments is of moderate Leviathan in that policymakers are neither entirely benevolent nor fully self-interested is changed. We show that partial tax coordination is more likely to prevail if the moderate type's Leviathan government put more weight on the tax revenue rather than the welfare of residents. The increased intensity of fiscal externality caused by different tax rates makes partial tax coordination more sustainable at the cost of the welfare of member countries belonging to the tax union.</p> <p><a href="#">Itaya-Are Moderate Leviathans Harmful to Tax Coordination-346.pdf</a></p> <hr/> <p><b>2:30pm - 3:00pm</b></p> <p><b>Name and Shame? Evidence from the European Union Tax Haven Blacklist</b>  <b>Aija Polakova</b>  Norwegian School of Economics, Norway</p> <p>I study the publication of the European Union (EU) tax haven blacklist on December 5, 2017 to examine whether and how the use of recognized tax havens affects firm value. I find that the tax haven naming and shaming by the EU had a negative effect on stock prices of firms with tax haven affiliates, especially so for firms with a strong brand value. Firms with relatively high cash effective tax rates had a less negative reaction, consistent with the market reacting positively to evidence that these firms were not as "tax-passive" as previously believed. The negative effect was also less pronounced in countries with low levels of investor protection and weakly governed firms with substantial conflicts of interest between principals and shareholders. This is consistent with increased scrutiny and potential for countermeasures associated with the blacklist, which reduce opportunities for managerial wealth diversion.</p> <p><a href="#">Polakova-Name and Shame Evidence from the European Union Tax Haven Blacklist-526.pdf</a></p> <hr/> <p><b>3:00pm - 3:30pm</b></p> <p><b>Reducing tax compliance cost through corporate tax base harmonisation in the European Union</b>  <b>Salvador Barrios, Diego d'Andria, Maria Gesualdo</b>  European Commission Joint Research Centre</p> <p>The European Commission proposal for the Common Consolidated Corporate Tax Base (C(C)CTB) is expected to significantly reduce the cost of doing business across borders in the European Union. This feature has long been highlighted in the academic literature, however to date the scarcity of comparable estimates on compliance costs had limited the assessment of the resulting welfare and economic gains. We exploit recently released survey data designed to provide comparable data on corporate tax compliance costs across the European Union to assess the impact of the C(C)CTB, using general equilibrium modelling. Macroeconomic results suggest that the reduction in compliance costs implied by the C(C)CTB is associated with greater efficiency. GDP and welfare increase in the EU. Benefits differ across countries. Member States having tax compliance costs reduced from the new estimates and having the large inward foreign investment stock are found to benefit more from the reform.</p> <p><a href="#">Barrios-Reducing tax compliance cost through corporate tax base harmonisation-383.pdf</a></p> <hr/> <p><b>3:30pm - 4:00pm</b></p> <p><b>What Determines Tax Incentives and how Effective are they?</b>  <b>Åsa Hansson</b>  Lund University, Sweden</p> <p>This paper considers factors determining tax incentives and examines how effective they are using data from OECD and EU countries. It is well known that countries compete when it comes to setting the statutory corporate tax rate but do they also compete when it comes to providing tax incentives on the tax base side? The paper starts out by analyzing factors affecting different tax incentive measures and then moves on to analyze how effective different incentives are in attracting investments. We study several different tax incentives and find them to be ineffective in generating investments and, that, reductions of statutory corporate tax rates are a more efficient way to generate investments.</p> <p><a href="#">Hansson-What Determines Tax Incentives and how Effective are they-294.pdf</a></p>
2:00pm - 4:00pm	<p><b>B02: Invited Session: Tax Compliance</b>  Session Chair: <b>Tuomas Kosonen</b>, Labour Institute for Economic Research, Helsinki</p>

Room A1081, Pinni A  
building

2:00pm - 2:30pm

### Behavioural Insights and Tax Compliance: Evidence from Large-Scale Field Experiments in Belgium

**Teodora Nikolaeva Tsankova<sup>1</sup>, Jan-Emmanuel De Neve<sup>2</sup>, Clement Imbert<sup>1</sup>, Maarten Luts<sup>3</sup>, Johannes Spinnewijn<sup>4</sup>**

<sup>1</sup>University of Warwick, UK; <sup>2</sup>University of Oxford, UK; <sup>3</sup>FPS Finance; <sup>4</sup>London School of Economics, UK

We study the effect of nudges in reminder letters at two different stages of the tax cycle. In collaboration with the Ministry of Finance of Belgium, we designed an RCT involving the universe of Belgian taxpayers that were either late in filing their tax returns and/or late with their tax payment. We test the effect of simplified reminder letters with or without additional nudges. In the late payers experiment, we find that simplified letters are effective in encouraging tax payment on the extensive, not intensive margin. Treatments that refer to penalties have an additional positive effect on compliance, which persists up to 120 days after the intervention. Overall, our results so far suggest that administrative complexity and making information about penalties more explicit are major determinants of tax compliance, while other behavioural factors have limited effects.

 [Tsankova-Behavioural Insights and Tax Compliance-179.pdf](#)

2:30pm - 3:00pm

### Dirty Money in New Disguise? Capital Flows Into and Out of Tax Havens.

**Jakob Miethe, Lukas Menkhoff**

German Institute for Economic Research (DIW Berlin), Germany

Capital flows via tax havens potentially hide illegal tax evasion activities. The October 2016 release of bilateral locational banking statistics of the Bank for International Settlements permits us to illuminate three open issues in this respect. We find that the intended effect of additional information-exchange-on-request treaties fades out over time. This also holds for reverse flows out of tax havens. In contrast, new treaties based on the automatic exchange of information show bite. This suggests that dirty money changes its disguise: it adapts to established information exchange treaties while it seems surprised by and thus reacts to new treaty forms.

 [Miethe-Dirty Money in New Disguise Capital Flows Into and Out-409.pdf](#)

3:00pm - 3:30pm

### Do Honest Hairdressers Get a Haircut? On Tax Rate and Tax Evasion.

**Jarkko Harju<sup>1</sup>, Tuomas Kosonen<sup>2</sup>, Olli Ropponen<sup>1</sup>**

<sup>1</sup>VATT Institute for Economic Research, Finland; <sup>2</sup>Labour Institute for Economic Research, Helsinki, Finland

This paper combines an RCT on VAT evasion with a VAT rate increase among hairdressers to study their impact on VAT evasion, and the link between other behavioral margins of firms. We are able to utilize high quality administrative data. We find that hairdressers facing a large VAT rate increase from 9% to 23% reduced their reported net-of-tax revenue by about 6%. The RCT indicates that half of the decline in these reports was due to increased tax evasion. The other half is explained almost completely by the fact that hairdressers did not pass the tax increase fully onto consumer prices. We also find that the VAT increase leaks into firm owners' taxable income by reducing also this tax base.

 [Harju-Do Honest Hairdressers Get a Haircut On Tax Rate and Tax Evasion-617.pdf](#)

3:30pm - 4:00pm

### Missing Miles: Evasion Responses to Car Taxes

**Jarkko Harju<sup>2</sup>, Tuomas Kosonen<sup>1</sup>, Joel Slemrod<sup>3</sup>**

<sup>1</sup>Labour Institute for Economic Research, Helsinki, Finland; <sup>2</sup>VATT Institute for Economic Research, Helsinki, Finland; <sup>3</sup>University of Michigan

We study a tax evasion response to car taxes in Finland, where used car importers overstate the mileage to reduce tax liability. First, we develop a tax evasion measure by comparing reported mileage upon import with subsequent information from vehicle inspections, and find that a decline in mileage — “missing miles” — occurs frequently. Second, we analyze a tax rate increase, and observe a reduction in the number of imported used cars, but only among non-evaders. Finally, we analyze an RCT varying the salience of tax enforcement measures, which suggests that providing information about new measures reduces missing miles.

 [Harju-Missing Miles-423.pdf](#)

2:00pm - 4:00pm

Room B3109, Pinni B  
building

## B03: Social Mobility

2:00pm - 2:30pm

### The Geography of Social Mobility in Germany

**Majed Dodin<sup>1</sup>, Sebastian Findeisen<sup>1</sup>, Lukas Henkel<sup>1</sup>, Dominik Sachs<sup>2</sup>**

<sup>1</sup>University of Mannheim, Germany; <sup>2</sup>LMU Munich, Germany

We characterize intergenerational social mobility in Germany using census data on the educational attainment of 230.000 children and their parent's earnings. Access to college is strongly associated with parental income. On average, a 10 percentile increase in parent income is associated with a 4.5 percentage point increase in access rates. Once we control for parental education, the number is only 3.0 percentage points. The parental income gradient is surprisingly similar across gender, urban or rural areas



and single versus two-parents households. For migrants, the parental income gradient is about 20% lower than for natives. Finally, there is substantial geographic variation in both, the baseline probability of college access as well as in the parental income gradient. For example, in the former socialist East Germany, the parental income gradient is almost 25% higher than in the west.

[Dodin-The Geography of Social Mobility in Germany-365.pdf](#)

**2:30pm - 3:00pm**

### **Absolute Income and Wealth Mobility in Postwar Germany**

**Timm Bönke<sup>1</sup>, Astrid Harnack<sup>1</sup>, Holger Lüthen<sup>1,2</sup>**

<sup>1</sup>Freie Universität Berlin, Germany; <sup>2</sup>DIW Berlin, Germany

We link various German microdata sources to analyze if children are economically better off than their parents. Combining the data yields detailed cross-sectional wealth and income distributions on a household level for both parents and children. Using panel data, we estimate transition probabilities to obtain non-parametric copulas. These link the child wealth and income distributions to the distributions of parental wealth and income. The combined data serves to identify intergenerational trends in wealth and income mobility for children born 1958 through 1983. In particular, we estimate the share of children with higher income and wealth than their parents. We find that income mobility declines across birth cohorts, while the results for wealth are ambiguous. We test various sources that are potentially responsible for the trend. In line with results for the US (Chetty et al., 2017), we find that GDP growth primarily benefits the income rich after 1970s.

[Bönke-Absolute Income and Wealth Mobility in Postwar Germany-527.pdf](#)

**3:00pm - 3:30pm**

### **Assortative Mating, Intergenerational Mobility of Women and Inequality**

**Timm Bönke, Miriam Wetter**

Freie Universität Berlin, Germany

Assortative mating is discussed to be one driver of increased income inequality. In this context, assortativeness is measured by similarity of educational attainment of spouses. The general findings is that the probability of both partners having the same educational attainment has increased over time. As higher education is associated with higher income, an increase in assortative mating might lead to higher concentration of household income and a rise in inequality. However, we show that the increase in educational homogamy is not due to a fundamental change in mating patterns but rather due to an increase in women's education and labor force participation. Linking assortativeness to intergenerational mobility and parental background, our results imply that sorting based on social background has remained stable. Therefore, we argue that the increase in assortative mating mirrors a process of economic emancipation and increasing participation opportunities of woman and not a change in mating behavior.

[Bönke-Assortative Mating, Intergenerational Mobility of Women and Inequality-513.pdf](#)

**3:30pm - 4:00pm**

### **Knocking on Parents' Door: Intergenerational Mobility and Regulation**

**Sauro Mocetti<sup>2</sup>, Giacomo Roma<sup>2</sup>, Enrico Rubolino<sup>1</sup>**

<sup>1</sup>University of Essex; <sup>2</sup>Bank of Italy

We exploited two major reforms in the regulation of professional services implemented in Italy since the 2000s in order to examine the impact on the intergenerational transmission of occupations. We built an OECD-style indicator of strictness of regulation for 14 occupations and three different cohorts. Then, using a difference-in-differences strategy, we exploited the differential effect of regulation on the occupations considered compared with employees in similar occupations, before and after each reform. We found that the progressive liberalization of professional services affected the allocation of individuals across occupations, leading to a substantial decrease in the propensity to follow the same career as one's parents. The impact of regulation on the likelihood of being employed in the same occupation as one's parents is greater in soft sciences and in areas where the demand for professional services is higher; at individual level, it is greater for less able individuals.

[Mocetti-Knocking on Parents Door-316.pdf](#)

**2:00pm - 4:00pm**

**Room B1096, Pinni B building**

## **B04: Optimal Income Taxation**

**2:00pm - 2:30pm**

### **Income Inequality, Redistributive Preferences, and the Extent of Redistribution: An Empirical Application of Optimal Tax Approach**

**Hannu Tanninen<sup>1</sup>, Matti Tuomala<sup>2</sup>, Elna Tuominen<sup>2</sup>**

<sup>1</sup>University of Eastern Finland, Finland; <sup>2</sup>University of Tampere, Finland

We examine empirically the relationship between the extent of redistribution and the components of the Mirrlees framework, with a focus on inherent inequality and government's redistributive preferences. We have constructed our income distribution variables from the Luxembourg Income Study (LIS) database, which provides information on both factor and disposable incomes. Our redistributive preference measure is constructed using the optimal tax formula for which we have collected data from various sources. In addition to traditional linear specifications, we use flexible methods to allow nonlinearities because pre-specified functional forms are not easy to justify in empirical investigations of the optimal tax framework. We study 14 advanced countries for approximately four decades and find support for the Mirrlees model: There is a positive relationship between factor-income inequality and the extent of redistribution. We also find a link between our redistributive-preference measure and the extent of redistribution.

[Tanninen-Income Inequality, Redistributive Preferences, and the Extent-247.pdf](#)

**2:30pm - 3:00pm****Optimal Income Taxation With Labor Supply Responses At Two Margins: When Is An Earned Income Tax Credit Optimal?****Emanuel Hansen**

University of Cologne, Germany

This paper studies optimal non-linear income taxation in an empirically plausible model with labor supply responses at the intensive (hours, effort) and the extensive (participation) margin. It shows that an Earned Income Tax Credit with negative marginal taxes and negative participation taxes at the bottom is optimal if social concerns for redistribution from the poor to the very poor are sufficiently weak. This result is driven by a previously neglected trade-off between labor supply distortions at both margins, i.e., two aspects of efficiency. Numerical simulations suggest that an expansion of the EITC for childless workers in the US could be welfare-increasing.

 [Hansen-Optimal Income Taxation With Labor Supply Responses-253.pdf](#)**3:00pm - 3:30pm****Optimal Tax Progressivity In Frictional Labor Markets****Albert Jan Hummel**

Erasmus School of Economics

High marginal taxes discourage in-work effort, but boost employment if labor markets fail to clear. I study the implications of this employment-enhancing effect of tax progressivity for the optimal design of redistributive taxes. To do so, I analyze a model with search frictions in which firms compete for workers with different abilities. High marginal taxes reduce working hours, but – by lowering posted wages – increase employment. High average taxes, on the other hand, raise posted wages and thereby reduce employment. Provided the government cannot tax match-specific output, these (un)employment responses call for intuitive adjustments of standard optimal tax rules.

 [Hummel-Optimal Tax Progressivity In Frictional Labor Markets-215.pdf](#)**3:30pm - 4:00pm****Optimal Nonlinear Taxation with Many Different Incomes: A sufficient Statistics Approach****Etienne Lehmann**

University Pantheon Assas Paris 2, France

I investigate how to tax the different incomes of taxpayers. When unobserved heterogeneity is one dimensional, I describe how the burden of taxation across the different incomes should be split. This efficiency rule can be expressed in terms of sufficient statistics and does not depend on government's tastes for redistribution. I apply this rule to investigate the validity of not taxing capital and I retrieve many results in the literature. When unobserved heterogeneity is multidimensional and the tax system is the sum of a comprehensive personal income tax schedules and of income specific tax schedules, I derive an optimal ABC formula for each of these schedules. I also derive a condition in terms of sufficient statistics under which exiting an income from the personal income tax base and compensating the revenue loss with a proportional tax of this income is socially desirable.

 [Lehmann-Optimal Nonlinear Taxation with Many Different Incomes-340.pdf](#)**2:00pm - 4:00pm****Room B3110, Pinni B building****B05: International Taxation I****2:00pm - 2:30pm****DBCFT, Border Adjustments, and Trade****Eric Wirths Bond, Robert Driskill**

Vanderbilt University, United States of America

A destination based cash flow tax (DBCFT) with border adjustments has been proposed as an alternative to the US corporate income tax. Advocates have argued that the tax will eliminate incentives to shift the location of production to avoid taxes, and will not distort international trade flows. We establish conditions under which a DBCFT with border adjustments will be neutral, in the sense that it has no effect on equilibrium in the two countries, using two standard general equilibrium models of international trade. We first analyzed a specific factor model, both with and without international capital mobility. We then examine a monopolistic competition model with heterogeneous firms, considering both a short run model with a fixed number of firms and a steady state model with endogenous entry..

 [Bond-DBCFT, Border Adjustments, and Trade-349.pdf](#)**2:30pm - 3:00pm****VAT Differentials in the EU, Cross-border Shopping, and the Vertical Distortion of Production****Aria Ardalan, Sebastian Georg Kessing**

University of Siegen, Germany


Do cross country value added tax differences within the EU internal market cause distortions across sectors, in particular with respect to the vertical structure of production? Using a sample of around 4.6 million firms in 10 neighboring European countries, we estimate the comparative effects of VAT rate changes between final consumption and intermediate sectors. Our empirical results indicate that VAT differences cause distortions across these sectors. Accounting for the relative importance of cross-border shopping makes these differences more pronounced. This evidence is supportive of policy proposals for further value added tax rate harmonization across EU member states.

 [Ardalan-VAT Differentials in the EU, Cross-border Shopping, and the Vertical Distortion-550.pdf](#)

**3:00pm - 3:30pm****International Taxation and Productivity Effects of M&As****Maximilian Todtenhaupt, Johannes Voget**

University of Mannheim &amp; ZEW, Germany

We investigate the effect of international differences in corporate taxation on the realization of productivity gains in M&A deals. We argue that tax differentials distort the efficient allocation of productive factors following an M&A and thus mitigate the resulting productivity improvement. Using firm-level data on inputs and outputs of production as well as on corporate M&As, we estimate that a 1 percentage point increase in the absolute tax differential between the locations of two merging firms reduces the subsequent total factor productivity gain by 4.5%. This effect is less pronounced when firms can use international profit shifting to attenuate effective differences in taxation. We show that our findings are mainly driven by deals with targets residing in locations with a tax advantage with respect to the acquirer. In these transactions, tax differentials reduce the post-merger adjustment in the target firm and inhibit the full realization of productivity gains.

 [Todtenhaupt-International Taxation and Productivity Effects of M&As-241.pdf](#)

**3:30pm - 4:00pm****The Allowance for Corporate Equity in Europe: Latvia, Italy and Portugal****Marcel George Gerard, Jan Kock**

Catholic University Louvain, Belgium

Corporate taxation usually favours debt finance over equity. That results in many firms being over-leveraged. The Allowance for Corporate Equity (ACE) tries to eliminate such bias through an equity related tax cut.

This paper assesses the effectiveness of three recent ACE reforms, in Latvia, Italy and Portugal, using a broad range of methods and a large dataset at firm level. Methodological it innovates by relating the differences-in-differences (DID) method, which captures the effect of the sole existence of the treatment, and the Effective Marginal Tax Rate (EMTR), which measures the impact of its intensity. When we do not take into account the heterogeneity of firms, we find a 1-2% decrease of the financial leverage in Italy and Portugal, but an increase in Latvia. Also of interest is that, though Italy and Latvia show a larger leverage cut among large firms, small firms are relatively more affected than medium-sized in Portugal.

 [Gerard-The Allowance for Corporate Equity in Europe-234.pdf](#)

**2:00pm - 4:00pm**

Room B4113, Pinni B building

**B06: Bunching I****2:00pm - 2:30pm****Non-Bunching at Kinks and Notches in Targeted Income Support in the Netherlands****Nicole Bosch<sup>1</sup>, Egbert Jongen<sup>1,2</sup>, Jan Mohlmann<sup>1</sup>, Wouter Leenders<sup>1,3</sup>**<sup>1</sup>CPB Netherlands Bureau for Economic Policy Analysis, Netherlands, The; <sup>2</sup>Leiden University; <sup>3</sup>London School of Economics and University of Oxford

We study the behavioural response to kinks and notches in the Dutch system of targeted income support, using data on the universe of Dutch taxpayers and benefit recipients for 2007--2014. We find no evidence of bunching around kinks and notches, neither in income nor in wealth. This finding is robust across different household types, modes of employment and age groups. We argue that a lack of salience of the financial incentives is key to understanding these results. The results suggest that the efficiency losses from targeted income support are limited.

 [Bosch-Non-Bunching at Kinks and Notches in Targeted Income Support in the Netherlands-400.pdf](#)

**2:30pm - 3:00pm****Better Bunching, Nicer Notching****Marinho Bertanha<sup>1</sup>, Andrew McCallum<sup>2</sup>, Nathan Seeger<sup>3</sup>**<sup>1</sup>University of Notre Dame; <sup>2</sup>Board of Governors of the Federal Reserve System; <sup>3</sup>University of Utah, United States of America

Bunching-type estimators use mass points in an observed distribution to estimate parameters that characterize an economic model. We clarify the assumptions necessary to identify these parameters and relate bunching estimators to censoring models. The result is an updated method that retains the insights of the bunching-type approach while placing our estimator within the econometrics literature. In Monte Carlo experiments and in the context of the earned income tax credit, our approach results in quantitatively different estimates of the compensated elasticity of reported income with respect to (one minus) the marginal.

 [Bertanha-Better Bunching, Nicer Notching-351.pdf](#)

**3:00pm - 3:30pm****Alternative Parametric Bunching Estimators of the ETI****Thomas Aronsson, Katharina Jenderny, Gauthier Lanot**

Umeå University, Sweden

We propose a maximum likelihood (ML) based method to improve the bunching approach of measuring the elasticity of taxable income (ETI), and derive the estimator for several model settings that are prevalent in the literature, such as perfect bunching, bunching with optimization frictions, notches, and heterogeneity in the ETI. We show that the ML estimator is more precise and likely less biased than ad-hoc bunching estimators that are typically used in the literature. In the case of optimization frictions in the form of random shocks to earnings, the ML estimation requires a prior of the average size of such shocks. The results obtained in the presence of a notch can differ substantially from those obtained using ad-hoc

approaches. If there is heterogeneity in the ETI, the elasticity of the individuals who bunch exceeds the average elasticity in the population.

[Aronsson-Alternative Parametric Bunching Estimators of the ETI-450.pdf](#)

**3:30pm - 4:00pm**

### **Behavioural response to time notches in transaction tax: Evidence from stamp duty in Hong Kong and Singapore**

**Eddy Hiu Fung Tam**

Centre for Business Taxation, Said Business School, University of Oxford, United Kingdom

To moderate speculation in housing market, multiple Asian cities introduced transaction tax notches on property with reduced rate at longer holding period. Using administrative transaction record, this paper studies the behavioural response in the timing of transaction, tax incidence and selection of buyers using the policy changes in Hong Kong and Singapore. Tax notches on holding period generate significant tax avoidance bunching in the timing of transaction, reduce the chance a property being resold in the long-run, and produce selection effect among buyers with different ex ante holding period. I use a new dataset on government estimated rental rate to estimate the tax incidence and find that buyers bear significant tax burden even when tax-free alternatives are available. Estimates suggest that traders are willing to wait 3-4 weeks to avoid 1% of transaction tax, and each week of delay would generate loss in surplus at 0.3 % of property value.

[Tam-Behavioural response to time notches in transaction tax-248.pdf](#)

**2:00pm - 4:00pm**  
**Room D11, Main building**

### **B07: Populism and Extremism**

**2:00pm - 2:30pm**

#### **Economic Losers and Political Winners: Sweden's Radical Right**

**Ernesto Dal Bo<sup>3</sup>, Frederico Finan<sup>3</sup>, Olle Folke<sup>1,2</sup>, Torsten Persson<sup>2</sup>, Johanna Rickne<sup>2,1</sup>**

<sup>1</sup>Uppsala University, Sweden; <sup>2</sup>Stockholm University, Sweden; <sup>3</sup>UC Berkeley

This paper provides an in-depth account of the growth to power of a typical radical right party, the Sweden Democrats (SD). We analyze the growth of the party among voters, and its' mobilization of politicians. A key contribution is to link the success of the party to a set of reforms that dramatically increased economic inequality between working and non-working people. Another contribution is to analyze the political and labor market background of the full universe of SD politicians. This lets us answer the question of whether the mobilization of politicians can also be linked to the inequality created by the reforms. We can also evaluate if the party was formed by politicians who left other, established parties, or if it brought new groups of citizens into the political arena.

[Dal Bo-Economic Losers and Political Winners-515.pdf](#)

**2:30pm - 3:00pm**

#### **The Origins of Populism: Evidence from the Great Recession and Immigration Crisis in the U.S.A.**

**Shuai Chen**

Tilburg University, Netherlands, The

Since a decade ago, populism has been surging in many Western democracies including the U.S. and part of Europe. This paper exploits two natural experiments in the U.S., the Great Recession and the 2014 immigration crisis, to investigate the economic and cultural determinants of populism and their interaction. With individual level panels in a difference-in-differences framework, I examine the expressions of populism in various respects. I find that economic insecurity represented by unemployment is the origin of the left-wing populism. It raises unhappiness, generalized distrust, non-confidence in established institutions, demand for financially punishing the rich, and results in political support for the left-wing populist. Potential mechanisms through financial dissatisfaction and perceived economic unfairness are justified. Cultural backlash due to immigration is the root of the right-wing populism. Though it only insignificantly renders more hostile attitude to immigrants through media consumption, it significantly entails increasing votes for the right-wing populist.

[Chen-The Origins of Populism-489.pdf](#)

**3:00pm - 3:30pm**

#### **Stop Invasion! Immigrants And The Rise Of Populism In Europe**

**Massimo Bordignon<sup>2</sup>, Edoardo Slerca<sup>1</sup>, Gilberto Turati<sup>3</sup>**

<sup>1</sup>Università della Svizzera italiana, Switzerland; <sup>2</sup>Catholic University of Milan, Italy; <sup>3</sup>Catholic University of Rome, Italy

The flourishing of populist parties with an anti-immigrant stance have raised questions about the determinants of their success. A great attention has been devoted to the effect of immigration on the support for these parties all over Europe, but far less has been paid to the channels through which immigration is connected to this political success. We distinguish between the "ideological" anti-immigrant channel of the votes from two "rational" channels – crowding out of social services and competition on the labor market – arising from differences in economic features of immigrants with respect to Italians. We investigate these channels using a particularly rich dataset on Lombardy and taking advantage of the fortuitous coincidence of national and regional elections. Controlling for the ideological channel, our results suggest that economic factors play a significant role and that the competition on the labor market dominates the crowding out effect.

[Bordignon-Stop Invasion! Immigrants And The Rise Of Populism-496.pdf](#)

**3:30pm - 4:00pm**

	<p><b>Immigration and Electoral Support for the Far-Left and the Far-Right</b>  <b>Anthony Edo<sup>1</sup>, Yvonne Giesing<sup>2</sup>, Jonathan Öztunc<sup>3</sup>, Panu Poutvaara<sup>2,4</sup></b>  <sup>1</sup>CEPII, France; <sup>2</sup>ifo, Germany; <sup>3</sup>BGSE, Spain; <sup>4</sup>LMU, Germany</p> <p>Immigration has become one of the most divisive political issues in the United States, the United Kingdom, France and several other Western countries. We estimate the impact of immigration on voting for far-left and far-right candidates in France, using panel data on presidential elections from 1988 to 2017. To derive causal estimates, we instrument more recent immigration flows by past settlement patterns in 1968. We find that immigration increases support for far-right candidates and has no robust effect on far-left voting. The increased support for far-right candidates is driven by low educated immigrants from non-Western countries.</p> <p><a href="#">Edo-Immigration and Electoral Support for the Far-Left and the Far-Right-487.pdf</a></p>
<p><b>2:00pm - 4:00pm</b>  <b>Room B4115, Pinni B building</b></p>	<p><b>B08: Inequality, Fairness and Voting</b></p> <hr/> <p><b>2:00pm - 2:30pm</b>  <b>Measuring Unfair Inequality: Reconciling Equality of Opportunity and Freedom from Poverty</b>  <b>Paul Hufe<sup>1</sup>, Ravi Kanbur<sup>2</sup>, Andreas Peichl<sup>3</sup></b>  <sup>1</sup>LMU Munich; <sup>2</sup>Cornell University; <sup>3</sup>LMU Munich</p> <p>In this paper we reconcile the ideals of equal opportunities and absence of poverty from a perspective of inequality measurement. A particular advantage of our approach is its appeal to the measurement of unfair inequalities. We develop a family of measures of unfair inequality which combine in essential fashion both inequality of opportunity and absolute deprivation. In empirical application our approach yields strong upward corrections to inequality of opportunity based quantifications of unfair inequality.</p> <p><a href="#">Hufe-Measuring Unfair Inequality-113.pdf</a></p> <hr/> <p><b>2:30pm - 3:00pm</b>  <b>Inequality and Extremist Voting: Evidence from Germany</b>  <b>Florian Dorn<sup>1,2</sup>, Clemens Fuest<sup>1,2,3</sup>, Lea Immel<sup>1,2</sup>, Florian Neumeier<sup>1</sup></b>  <sup>1</sup>ifo Institute - Leibniz Institute for Economic Research at the University of Munich, Germany; <sup>2</sup>University of Munich; <sup>3</sup>CESifo</p> <p>This paper studies the impact of economic inequality on political polarization. Using data on measures of regional income inequality and federal election outcomes at the county level in Germany, we investigate whether inequality influences the share of votes for nationalist and leftist parties. Our results based on instrumental variable estimation suggest that an increase in income inequality has a sizeable influence on the support for extremist parties. The lower the median income in a county compared to the national level and the higher the level of inequality within a county, the higher is the share of votes both nationalist and leftist parties receive. Our findings thus indicate that the rise in inequality may be a threat to political stability.</p> <p><a href="#">Dorn-Inequality and Extremist Voting-419.pdf</a></p> <hr/> <p><b>3:00pm - 3:30pm</b>  <b>How will Income Inequality Respond to Lifting of the Oil Embargo in Iran?</b>  <b>Mohammad Reza Farzanegan<sup>1</sup>, Tim Krieger<sup>2</sup></b>  <sup>1</sup>Philipps-Universität Marburg, CNMS, Germany; <sup>2</sup>Albert-Ludwigs-Universität Freiburg, Germany</p> <p>We study the short and long run responses of income inequality to positive per capita oil and gas rent shocks in Iran. Using historical data from 1973 to 2012 and vector autoregression (VAR)-based impulse response functions, we find a positive and statistically significant response of income inequality to oil rent booms within 4 years of the shock. In addition, the Autoregressive-Distributed Lag (ARDL) results show that in the long run, a 10-percent increase in oil and gas rents per capita leads to an approximately 1.4-percent increase in income inequality. The results are robust to controlling for different channels potentially affecting the income distribution in Iran. Our analysis can help policymakers evaluate and accommodate the possible positive or negative effects on inequality in Iran resulting from the 2016 lifting of the embargo against the country.</p> <p><a href="#">Farzanegan-How will Income Inequality Respond to Lifting of the Oil Embargo-102.pdf</a></p> <hr/> <p><b>3:30pm - 4:00pm</b>  <b>Skewness, Tax Progression, and Demand for Redistribution: Evidence from the UK</b>  <b>Kirill Pogorelskiy<sup>1</sup>, Stefan Traub<sup>2</sup></b>  <sup>1</sup>University of Warwick, Coventry, UK; <sup>2</sup>Helmut-Schmidt-Universität Hamburg, Germany</p> <p>We introduce a skewness-based approach to measure tax progression and demand for redistribution. We provide a political economy foundation for a novel measure of skewness by expressing key properties of the classical model of voting over income redistribution (Meltzer and Richard 1981) and the Prospect Of Upward Mobility (POUM) mechanism (Benabou and Ok 2001), as well as the conventional notion of a progressive tax, directly in terms of skewness, defined using quantile ratios relative to the median of the income distribution. In an empirical analysis of 1979 -- 2013 UK income distributions, we find that skewness has increased over time, with the rich moving further away from the median. While the magnitude of the increase has remained small enough that the observed redistribution (or lack thereof) could be consistent with the POUM hypothesis, more recent periods show an increase in tax progression.</p> <p><a href="#">Pogorelskiy-Skewness, Tax Progression, and Demand for Redistribution-228.pdf</a></p>

2:00pm - 4:00pm  
Room B4116, Pinni B  
building

## B09: Taxation and Firm Behavior

2:00pm - 2:30pm

### Do Pass-Through Owners Pass Tax Burdens Through to their Workers?: Responses of Pass-Through Owners and Workers to Changes in Top Marginal Tax Rates

Max William Risch

University of Michigan, United States of America

This paper uses a new linked owner-firm-employee dataset created from administrative tax records to analyze the role of the firm in mediating responses to changes in top marginal personal income tax rates. I focus on pass-through firms, firms for which business income is taxed at the personal income tax rates of firm owners, and address the question: Do changes in the top marginal tax rate affect the compensation of lower-bracket workers who are not directly subject to the rate changes? I find that lower-bracket workers in firms whose owners were more exposed to the tax change reported lower relative earnings following the tax change. These results provide some of the first direct evidence of spillovers from changes in the top marginal personal income tax rate to lower-bracket individuals not directly subject to the top rate. I examine the implications of this evidence for personal and business income tax policy.

 [Risch-Do Pass-Through Owners Pass Tax Burdens Through to their Workers-528.pdf](#)

2:30pm - 3:00pm

### Do Social Insurance Taxes Hinder Entrepreneurial Activity?

Youssef Benzarti<sup>1</sup>, Jarkko Harju<sup>2</sup>, Tuomas Matikka<sup>3</sup>

<sup>1</sup>UCLA; <sup>2</sup>VATT Institute for Economic Research, Helsinki; <sup>3</sup>VATT Institute for Economic Research, Helsinki

This paper estimates the effect of social insurance taxes on entrepreneurial activity. We use a unique institutional setting in Finland that allows us to leverage exogenous variation in the compulsory social security taxes of entrepreneurs, along with rich firm and individual level administrative data for all entrepreneurs. We find that entrepreneurs substantially reduce their contributions to the social insurance scheme when they can more freely decide the level of contributions. We observe no effects on the firm-level business activity measures of the affected entrepreneurs but they seem to receive lower total income from the firm after the reform.

 [Benzarti-Do Social Insurance Taxes Hinder Entrepreneurial Activity-320.pdf](#)

3:00pm - 3:30pm

### How Aggressive are Foreign Multinational Companies in Reducing their Corporation Tax Liability? Evidence from UK Confidential Corporate Tax Returns.

Katarzyna Anna Habu<sup>1,2</sup>

<sup>1</sup>Utah State University, United States of America; <sup>2</sup>NBER, United States of America

In this paper, I use confidential UK corporate tax returns data to explore whether there are systematic differences in the amount of taxable profits that multinational and domestic companies report. I find that the ratio of taxable profits to total assets reported by foreign multinational subsidiaries is half that of comparable domestic standalones. The difference is almost entirely attributable to the fact that a higher proportion of foreign multinational subsidiaries report zero taxable profits. I document how the estimated difference is related to profit shifting and show that using accounting data leads to much smaller estimates of the difference.

 [Habu-How Aggressive are Foreign Multinational Companies-146.pdf](#)

3:30pm - 4:00pm

### Intertemporal Income Shifting: Evidence from Small Business Owners

Helen Miller<sup>1</sup>, Kate Smith<sup>1,2</sup>, Thomas Pope<sup>1</sup>

<sup>1</sup>Institute for Fiscal Studies, United Kingdom; <sup>2</sup>University College London, United Kingdom

Owners of closely held businesses often receive favourable tax treatment and are highly responsive to the tax system. We show that the high responsiveness of owners of closely held UK businesses is entirely explained by intertemporal income shifting. Individuals shift income across years to smooth taxable income around tax kinks, but they also shift income to company liquidation, allowing them to access favourable capital gains tax treatment. Ignoring income shifting leads to an overestimate of the potential deadweight loss from taxing these individuals. Our results are informative about the avoidance costs associated with tax breaks offered to "entrepreneurs".

 [Miller-Intertemporal Income Shifting-468.pdf](#)

2:00pm - 4:00pm  
Room B4117, Pinni B  
building

## B10: Social Insurance

2:00pm - 2:30pm

### Short Planning Horizons, Time Inconsistency, and the Save More Tomorrow Program

T. Scott Findley<sup>1</sup>, Erin Cottle Hunt<sup>2</sup>

<sup>1</sup>Utah State University, United States of America; <sup>2</sup>University of Oregon, United States of America

Employer sponsored Save More Tomorrow (SMarT) Plans, pioneered by Thaler and Benartzi, allow employees to automatically increase their savings rate in the future. SMarT plans are often motivated as a way to help hyperbolic discounters save more for retirement. However, in a simple theoretical model, agents with hyperbolic discount functions do not change their behavior when offered a SMarT savings plan. They simply unwind any additional savings to follow their original consumption path. We examine a

model with myopic consumers who only plan a fixed number of years into the future. We demonstrate that SMarT savings plan can alter the savings-consumption decisions of short-sighted individuals and improve welfare. We find that a short-sighted individual with a five year planning horizon would give up 13% of lifetime consumption in order to have access to a SMarT savings plan, ...

[Findley-Short Planning Horizons, Time Inconsistency, and the Save More Tomorrow Program-607.pdf](#)

**2:30pm - 3:00pm**

### **Beyond The Scope Of Politicians: A Growth Effect On Intergenerational Redistribution Policies In A Probabilistic Voting Model**

**Kazutoshi Miyazawa**

Doshisha University, Japan

We aim to understand why some developed countries adopt more generous social security systems than the Markov perfect equilibrium in a probabilistic voting model predicts. Contrary to the literature, we assume that politicians are opportunistic in that they take market outcomes, such as prices and externalities, as given. With this assumption, we prove that current politicians underestimate private savings, which increases the amount of income redistribution when capital accumulation has a positive external effect on labor productivity. Using data on trust in government as an index of political opportunism, we show that more opportunistic politicians adopt more generous public pensions.

[Miyazawa-Beyond The Scope Of Politicians-240.pdf](#)

**3:00pm - 3:30pm**

### **Domain-Specific Risk and Optimal Sickness Insurance**

**Ilpo Suoniemi<sup>1</sup>, Ohto Kanninen<sup>1</sup>, Petri Böckerman<sup>2</sup>**

<sup>1</sup>Labour Institute for Economic Research, Finland; <sup>2</sup>Jyväskylä University School of Business and Economics

We develop a method to estimate domain-specific risk. We apply the method to sickness insurance by fitting a utility function at the individual level, using European survey data on life satisfaction. Three results stand out. First, relative risk aversion increases with income. Second, marginal utility is higher in the sick state conditional on income, due to an observed fixed cost of sickness. Third, the domain-specificity of risk shifts the focus on the smoothing of utility, not consumption. The optimal policy rule implies that the replacement rates should be non-linear and decrease with income.

[Suoniemi-Domain-Specific Risk and Optimal Sickness Insurance-410.pdf](#)

**2:00pm - 4:00pm**

**Main auditorium  
(Juhlasali), Main  
building**

**2:00pm - 4:00pm**

**Room D13, Main  
building**

### **B11: EconPol Session: Implications of US Tax Reform for Europe**

Session Chair: **Andreas Peichl**, ifo Institute

Panel debate with: Michael Devereux (Oxford University Centre for Business Taxation), Clemens Fuest (ifo Institute and University of Munich), Michelle Hanlon (MIT, Sloan School of Management), Victoria Perry (International Monetary Fund).

### **B12: Fiscal Rules in Federations**

**2:00pm - 2:30pm**

### **"Fiscal Devaluation And The Real Effective Exchange Rate: Empirical Evidence For The Euro Area"**

**Debora Assisi, Giampaolo Arachi**

University of Salento, Italy

The literature has long recognized that the effects of a devaluation of the nominal exchange rate might be indirectly achieved through a revenue neutral tax shift, which is usually referred to as "internal" or "fiscal" devaluation.

The existing literature focuses mainly on the effect of such a fiscal policy on the trade balance of a country or on growth. However, a change in the tax mix may affect trade and growth through different channels. The aim of this paper is to provide evidence on the effects of a revenue neutral tax shift, such as the fiscal devaluation, on a country's real exchange rate.

[Assisi-Fiscal Devaluation And The Real Effective Exchange Rate-375.pdf](#)

**2:30pm - 3:00pm**

### **Do Fiscal Councils Make Fiscal Rules More Effective?**

**Mustafa Yeter**

German Council of Economic Experts

In this paper, I test empirically whether fiscal councils can contribute to more sustainable fiscal policy through their mandate to monitor fiscal rules. To this end, I make two distinct contributions to the literature on fiscal councils. First, I assemble a panel data set on fiscal councils comprising time-varying information with respect to their mandate to monitor fiscal rules. Second, I take the potential endogeneity of fiscal councils explicitly into account by relying on propensity score matching and the synthetic control method in my empirical analysis in order to obtain causal inference. Naive regression indicate selection into treatment. The empirical evidence obtained from propensity score matching indicates no strengthening of fiscal rules from fiscal councils monitoring the latter in case of fiscal fundamentals. However, the results provide evidence for an additional reduction of risk premia on long-term government bonds.

[Yeter-Do Fiscal Councils Make Fiscal Rules More Effective-392.pdf](#)

**3:00pm - 3:30pm**

### **Decentralization and Intra-Country Transfers in the Great Recession: The Case of the EU**

**Timothy Goodspeed**

Hunter College, United States of America

The classic arguments of Musgrave (1959) and Oates (1972) are that the redistribution and stabilization functions should be assigned to the federal level of government. These arguments suggest that under-provision of redistributive spending should accompany greater decentralization and that subnational policies aimed at macroeconomic stabilization are likely to be less effective than national ones. In this paper I examine data on intra-country social protection transfers in the EU before and after the crisis. The results support the classic federalism assignment. For both reasons of redistribution and stabilization, social protection expenditures are best assigned to the central level of government. Regression results indicate that greater decentralization lowers social protection expenditures and a greater vertical fiscal imbalance and greater subnational deficits result in more spending on things other than social protection.

 [Goodspeed-Decentralization and Intra-Country Transfers in the Great Recession-195.pdf](#)

**3:30pm - 4:00pm****Fiscal Reaction Functions Across the World: A Quest of Statistical (In-)Significance****Antonio Afonso<sup>1</sup>, João Jalles<sup>2</sup>**<sup>1</sup>ISEG - University of Lisbon, Portugal; <sup>2</sup>IMF

We estimate fiscal reaction functions for a panel of 173 countries using data between 1970-2014. Most notably, we assess the existence of non-Ricardian regimes, as postulated in the Fiscal Theory of the Price Level (FTPL), or, contrarily, the possibility of Ricardian regimes. By means of several, well established and state-of-the-art, panel data techniques, we find that: governments have on average increased the primary balance as a response to higher previous government indebtedness, implying a Ricardian fiscal regime, contradicting the FTPL. A more Ricardian fiscal regime emerged essentially after 1995 and notably in the sub-period 2008-

2014, after the Global Financial Crisis (before that statistical insignificance is the norm) From a P-VAR analysis, we find that increases in government indebtedness increase primary balances, supporting overall the existence of an average Ricardian fiscal regime.

 [Afonso-Fiscal Reaction Functions Across the World-178.pdf](#)

**2:00pm - 4:00pm****Room D14, Main building****B13: Local Governments I****2:00pm - 2:30pm****Why High-level Executives Earn Less in the Government than in the Private Sector****Hideki Konishi<sup>1</sup>, Amihai Glazer<sup>2</sup>**<sup>1</sup>Waseda University, Japan; <sup>2</sup>University of California, Irvine

Though governmental officials often have far greater responsibilities and make far more consequential decisions than do CEOs of private firms, government officials often earn far less and face low-powered incentives. We offer explanations for the differences, considering Nash bargaining with the head of a governmental agency or with the CEO of a private firm. If for a governmental agency one official sets price and a different official negotiates pay, then under some conditions the head of a governmental agency will earn less than the head of a for-profit firm. If the governmental agency produces a non-excludable public good, with the agency financed by a distortionary tax, then even if the consumer surplus generated at the governmental agency exceeds profits at a for-profit firm, the head of the governmental agency may be paid less. We also show that a governmental official paid less than a private CEO faces weaker incentives.

 [Konishi-Why High-level Executives Earn Less in the Government than in the Private Sector-229.pdf](#)

**2:30pm - 3:00pm****The effects of the new fiscal rule and creative accounting: Empirical evidence from Japanese municipalities****Haruaki Hirota<sup>1</sup>, Hideo Yunoue<sup>2</sup>**<sup>1</sup>Musashi University, Japan; <sup>2</sup>University of Hyogo

The purpose of this paper is to analyze creative accounting by fiscal adjustments in Japanese municipalities after the introduction of a new fiscal rule using a seemingly unrelated regression with the difference in differences method. We contribute to the literature by analyzing the interdependency of the new fiscal indexes, which comprise three flow indexes and one stock index, and identifying the causal effects of the new fiscal rule. Our main contribution is the finding that municipalities increase money transfers to public enterprise accounts after the introduction of the new fiscal rule to avoid the applicable punishments. This phenomenon is creative accounting by fiscal adjustments because municipalities postpone improving their true fiscal deficits.

 [Hirota-The effects of the new fiscal rule and creative accounting-352.pdf](#)

**3:00pm - 3:30pm****Figure out China's Land Finance from the Face of Local Governors: Facial Features and Land Transfer****Junxue Jia, Jinghua Lei, Runbo Yang**

Renmin University of China, China, People's Republic of

In this paper, we examine the relation between facial features of administrators and land finance. Since the tax-sharing reform in 1994, the problem caused by mismatch between fiscal revenue and expenditure of local government was getting severe. Land finance gradually becomes the panacea for economic and fiscal development. The development of land finance is affected by the characteristics of city local secretary and mayor. As revealed in previous study, the characteristics can be captured with facial



features. Using OLS estimations and facial features, we examine the effects of secretary and mayor on the income, acreage and price of land transferred. Land can be transferred by agreement or by tender auction and listing and it reflects different economic purposes of local government. The effects of secretary and mayor on land transfer are not the same and the effect is also different when one facing different transferring approach.

[Jia-Figure out China's Land Finance from the Face of Local Governors-387.pdf](#)

**3:30pm - 4:00pm**

### **Revenue-Side Vs Spending-Side Fiscal Adjustments: Evidence from Italian Municipalities**

**Francesco Porcelli<sup>1</sup>, Luigi Marattin<sup>2</sup>, Tommaso Nannicini<sup>3</sup>**

<sup>1</sup>SOSE SpA, Italy; <sup>2</sup>University of Bologna; <sup>3</sup>Bocconi University

This paper studies how local authorities react to central government's spending cuts resulting in a contraction of intergovernmental grants. The theoretical predictions of the local fiscal adjustment have been tested using a new and unique dataset of Italian municipalities over a period of six years from 2007 to 2012. Italy provides a good laboratory for the empirical analysis thanks to the intense program of inter-governmental grants reduction implemented from 2008 up to 2015. Moreover, Italian data are particularly useful because of the presence of a discontinuity in the rule of determining some grants contraction produced by the permanent exemption of municipalities below 5000 inhabitants. Final results show that Italian municipalities reacted to the contraction of inter-governmental grants mainly by increasing local taxes rather than by reducing local expenditure; some heterogeneity emerges in relation to the level of the fiscal effort, the electoral cycle and the degree of electoral competition.

[Porcelli-Revenue-Side Vs Spending-Side Fiscal Adjustments-322.pdf](#)

**2:00pm - 4:00pm**

**Room Paavo Koli,  
Pinni A building**

### **B14: Labor Market and Education Reforms**

**2:00pm - 2:30pm**

#### **Employment Effects Of Payroll Tax Subsidies**

**Matthias Collischon, Kamila Cygan-Rehm, Regina Therese Riphahn**

FAU Erlangen-Nürnberg, Germany

This paper exploits reforms of wage subsidies in the framework of the German Minijob program to investigate substitution and complementarity relationships between subsidized and non-subsidized labor demand. We use an instrumental variables approach and apply administrative data on German establishments for the period 1999-2014. Particularly in small establishments (0-9 employees) subsidized Minijob employment comprises large shares of the work force, on average over 40 percent. We find causal substitution effects in these establishments: increasing the subsidization of Minijob employment crowds out non-subsidized employment. Based on our current estimates, Minijob employment in 2014 may have eliminated more than 0.5 million unsubsidized employment relationships just in small establishments. The estimates are robust to the choice of the outcome measure, the representation of the time trend, the omission of inactive firms, and the estimation strategy.

[Collischon-Employment Effects Of Payroll Tax Subsidies-169.pdf](#)

**2:30pm - 3:00pm**

#### **Displacement Effects and Heterogeneous Impact of an Active Labor Market Policy**

**Mathieu Sanch-Maritan<sup>1,2</sup>, Mohamed Hilal<sup>1</sup>, Lionel Vedrine<sup>1</sup>**

<sup>1</sup>UMR 1041 CESAER, INRA Agro Sup, Université de Bourgogne Franche-Comté; <sup>2</sup>Université Paris Nanterre

We assess the impact on an active labor market policy on the potential outcomes of those not assigned to the program. We use a two-stage randomized experiments. The design of this experiment solve a number of identification issues. However some threats to identification remain. One of the crucial hypotheses of group-randomized trials is the absence of externalities between local labor markets. To tackle this issue, we build zoning depicting areas of prospecting whose size varies from 15 to 60 minutes. We also use more flexible functional form such as Generalized Additive Models or Geoadditive Model. Our empirical investigations do not reveal clear evidences of displacement effects in general. However, we find evidences of treatment heterogeneity regarding the local context.

[Sanch-Maritan-Displacement Effects and Heterogeneous Impact of an Active Labor Market Policy-306.pdf](#)


**3:00pm - 3:30pm**

#### **The Effects of an Education-Leave Program on Educational Attainment and Labor-Market Outcomes**

**Antti Kauhanen**

The Research Institute of the Finnish Economy, Finland

I study the effect of an education leave subsidy for the employed on labor-market outcomes and educational attainment using Finnish administrative linked employer-employee panel data and matching methods. The adult education allowance is available to employees with at least eight years of work experience and allows them to take a leave for 2–18 months to participate in an education program while being compensated for a substantial part of their forgone earnings. I find large positive treatment effects on educational attainment and changing occupation. The treatment effects on earnings and employment are negative during the lock-in period and close to zero afterward. Treatment effects on pseudo-outcomes are small and with one exception not statistically significant, which supports the credibility of the identification strategy. Sensitivity analyses show that unobserved variables should have a fairly large effect on treatment assignment to change the results.

 [Kauhanen-The Effects of an Education-Leave Program on Educational Attainment and Labor-Market Outcomes-222.pdf](#)

**3:30pm - 4:00pm**

### **Long-Term Effects of Extended Unemployment Benefits for Older Workers**

**Hanna Pesola, Tomi Kyrrä**

VATT, Finland

This paper examines the long-term effects of extended unemployment benefits that older unemployed receive until retirement in Finland. We consider a reform that increased the age threshold of this scheme from 55 to 57. Our estimates show that the reform increased employment over the remaining working career by seven months. Despite the corresponding reduction in unemployment, we find no evidence of significant effects on mortality or receipt of disability and sickness benefits, nor on spouse's labor supply. The reform led to a fiscal impact of 15,000 Euros in increased net transfers paid by an average individual over the 10-year period.

 [Pesola-Long-Term Effects of Extended Unemployment Benefits-427.pdf](#)

**2:00pm - 4:00pm**

**Room A07, Main building**

## **B15: Political Budget Cycles and Fiscal Manipulation**

**2:00pm - 2:30pm**

### **Creative Accounting and Municipal Mergers: A Theoretical and Empirical Approach**

**Tsuyoshi Goto, Genki Yamamoto**

Osaka University, Japan

This paper investigates whether municipalities employ creative accounting before they get merged. If they use the creative accounting then, they can behave as if they had less debt than the real amount and escape from the punishment, which they will take when they have excessive debt. The theoretical model of this paper shows that a small municipality employs creative accounting and a large municipality does not before their merger. This is because the smaller municipality has an incentive to make debt and hides its excessive debt by the creative accounting. Empirical analysis investigates the creative accounting employed before the massive Japanese municipal mergers in 2000s. At that time, Japanese municipalities could employ creative accounting and could behave as if their fiscal condition had been good by hiding their debt to their special accounts. We empirically show that small municipalities employed creative accounting more than large ones.

**2:30pm - 3:00pm**

### **Do Recession Expectations Kill Political Budget Cycles?**

**Frank Bohn<sup>1</sup>, Jan-Egbert Sturm<sup>2</sup>**

<sup>1</sup>Radboud University, the Netherlands; <sup>2</sup>ETH Zurich, Switzerland

The political budget cycle literature argues that governments expand deficits in election years. However, what happens when the government expects an economic downturn at the same time? Will it allow the deficit to expand even further, or will it resort to spending cuts and tax increases? When voters expect less than full automatic stabilisation, our model shows that opportunistic government behaviour leads to smaller deficits, thereby responding pro-cyclically to recession expectations. Panel data evidence for more than 100 countries robustly supports the theoretical pro-cyclicality prediction. Moreover, when recession expectations are considered, traditional and other context-conditional PBC effects are eliminated.

**3:00pm - 3:30pm**

### **The Sacred And The Profane Of Budget Cycles: Evidence From Italian Municipalities**

**Federico Revelli, Roberto Zotti**

University of Torino, Italy - Department of Economics and Statistics "Cognetti De Martiis"

This paper explores the influence of the staggered schedule of Italian mayoral elections and of the calendar of traditional religious celebrations in Italian municipalities on the timing of tax setting decisions and on the selection process of mayoral candidates. We find that incumbents are more likely to schedule the crucial decisions about the local income tax rate during the months following the date of the elections and that fiscal decisions are less likely to be scheduled around Patron Saint days, compatibly with the hypothesis that those traditional religious events constitute temporary shocks to the social capital of local communities, inducing incumbent governments to abstain from making potentially disruptive fiscal decisions under those sensitive circumstances. Finally, we find that when local elections happen to take place in the proximity of a locality's traditional celebrations, the elected mayors tend to exhibit milder ideology and higher indicators of valence.

**3:30pm - 4:00pm**

### **The Dark Side of Tax Progressivity: The Impact of Fiscal Flexibility on Tax Manipulation**

**Tommaso Giommoni**

Bocconi University, Italy

The goal of this paper is to study the impact of tax progressivity on the practice of political budget cycle, at the municipal level. In particular, we explore whether allowing decision-makers to tax differently distinct groups of tax-payers leads to higher levels of tax manipulation. We exploit an Italian reform of the local personal income tax (PIT), flat before the intervention, that introduced progressivity. We take advantage of the staggered timing of local elections to estimate a Diff-in-Diff model and we find that the reform consistently amplifies political budget cycle of PIT. In terms of mechanisms, it emerges that politicians do targeting as they seem to play different strategies with diverse wage groups: middle-high income rates are subject to larger manipulation than moderate ones. These results reveal a negative side of fiscal progressivity as it may lead to higher level of tax manipulation with larger amount of diverted public resources.

<b>4:00pm - 4:30pm</b>	<b>Coffee Break</b>
<b>4:30pm - 5:30pm</b> Main auditorium (Juhlasali), Main building	<b>Plenary II: Keynote Lecture: Henrik Kleven (Princeton University) on "Taxation and the Extensive Margin Reconsidered"</b> Session Chair: <b>Claus Thustrup Kreiner</b> , CEBI, University of Copenhagen
<b>5:30pm - 6:30pm</b> Main auditorium (Juhlasali), Main building	<b>General Assembly of Members</b>
<b>7:00pm - 9:00pm</b> Tampere City Hall	<b>Welcome Reception</b>

**Date: Wednesday, 22/Aug/2018**

**9:00am - 10:00am**

**Main auditorium  
(Juhlasali), Main  
building**

**Plenary III: Keynote Lecture: Petra Todd (University of Pennsylvania) on "Incorporating Personality Traits Into Economic Models of Labor Supply, Education, and Occupational Choice"**

Session Chair: **Eva Mörk**, Uppsala University

**10:00am - 10:30am**

**Coffee Break**

**10:30am - 12:30pm**

**Main auditorium  
(Juhlasali), Main  
building**

**C01: Measuring Inequality**

**10:30am - 11:00am**

**Pro-rich Inflation In Europe and Implications for the Measurement of Inequality**

**Eren Gürer<sup>1</sup>, Alfons J. Weichenrieder<sup>1,2,3</sup>**

<sup>1</sup>Goethe University Frankfurt, Germany; <sup>2</sup>Vienna University of Economics and Business; <sup>3</sup>CESifo

This paper studies the distributional consequences of a systematic variation in expenditure shares and prices. Using European Union Household Budget Surveys and Harmonized Index of Consumer Prices data, we construct household-specific price indices and reveal the existence of a pro-rich inflation in Europe. Particularly, over the period 2001-15, the consumption bundles of the poorest deciles in 25 European countries have, on average, become 10.5 percentage points more expensive than those of the richest decile. We find that ignoring the differential inflation across the distribution underestimates the change in the Gini (based on consumption expenditure) by up to 0.03 points. Cross-country heterogeneity in this change is large enough to alter the inequality ranking of numerous countries. The average inflation effect we detect is almost as large as the change in the standard Gini measure over the period of interest.

 [Güerer-Pro-rich Inflation In Europe and Implications for the Measurement-175.pdf](#)

**11:00am - 11:30am**

**Accounting for Differences in Income Inequality across Countries**

**Denisa Maria Sologon<sup>1</sup>, Philippe Van Kerm<sup>1,2</sup>, Jinjing Li<sup>3</sup>, Cathal O'Donoghue<sup>4</sup>**

<sup>1</sup>LISER, Luxembourg; <sup>2</sup>University of Luxembourg; <sup>3</sup>University of Canberra; <sup>4</sup>The National University of Ireland, Galway

This paper proposes a framework for studying international differences in the distribution of household income. Integrating micro-econometric and micro-simulation approaches in a decomposition analysis it quantifies the role of tax-benefit systems, employment structures, labour prices and market returns, and demographic composition in accounting for differences in income inequality across countries. Building upon EUROMOD (the European tax-benefit calculator) and its harmonized datasets, the model is portable and can be implemented for any cross-country comparisons within the EU. An application to the UK and Ireland shows that differences in tax-benefit rules between countries account for roughly half of the observed difference in disposable household income inequality. Demographic differences play negligible roles. The Irish tax-benefit system is more redistributive than UK's due to a higher tax progressivity and higher average transfer rates. These are largely attributable to policy parameter differences, but also to differences in pre-tax, pre-transfer income distributions.

 [Sologon-Accounting for Differences in Income Inequality across Countries-161.pdf](#)

**11:30am - 12:00pm**

**The Roots of Inequality: Estimating Inequality of Opportunity from Regression Trees**

**Paul Hufe<sup>1</sup>, Paolo Brunori<sup>2</sup>, Daniel Mahler<sup>3</sup>**

<sup>1</sup>LMU Munich; <sup>2</sup>University of Florence; <sup>3</sup>World Bank

We propose a set of new methods to estimate inequality of opportunity based on conditional inference regression trees. In particular, we illustrate how these methods represent a substantial improvement over existing empirical approaches to measure inequality of opportunity. First, they minimize the risk of arbitrary and ad-hoc model selection. Second, they provide a standardized way of trading off upward and downward biases in inequality of opportunity estimations. Finally, regression trees can be graphically represented; their structure is immediate to read and easy to understand. This will make the measurement of inequality of opportunity more easily comprehensible to a large audience. These advantages are illustrated by an empirical application based on the 2011 wave of the European Union Statistics on Income and Living Conditions.

 [Hufe-The Roots of Inequality-112.pdf](#)

**12:00pm - 12:30pm**

**Reassessing Top Income Trends in the US: The Role of Population and Economic Growth**

**Carla Krolage<sup>1</sup>, Andreas Peichl<sup>1</sup>, Daniel Waldenström<sup>2</sup>**

<sup>1</sup>ifo Institute, Germany; <sup>2</sup>PSE, France

This paper examines the role of population growth and economic growth for top income trends in the US. Over the past century, the US population tripled and its GDP per capita rose five times. Yet, the standard top income share measure used by Piketty and Saez (2003) and the subsequent literature is unable to account for such influences. We present three alternative top share measures that do this explicitly. Our findings show that the U-shaped inequality trend over the last century is robust to using alternative

measures, but some new features emerge. In particular, when linking top incomes to economic growth, and thus requiring top groups to keep up with overall productivity growth, we find sharper interwar declines in top shares and almost no increases at all after 1990. We also analyze the role of different income sources and broader income concepts for these patterns.

 [Krolage-Reassessing Top Income Trends in the US-573.pdf](#)

**10:30am - 12:30pm**

**Room B3107, Pinni B building**

**C02: Invited Session: Labor Market Functioning**

Session Chair: **Håkan Selin**, Institute for Evaluation of Labour Market and Education Policy (IFAU)

**10:30am - 11:00am**

**Having It All? Employment, Earnings and Children**

**Tobias Laun<sup>1</sup>, Johanna Wallenius<sup>2</sup>**

<sup>1</sup>Uppsala University, Sweden; <sup>2</sup>Stockholm School of Economics, Sweden

We study the effect of family policies on female employment, fertility and the gender wage gap. To this end, we develop a life cycle model of heterogeneous households featuring endogenous labor supply, human capital accumulation, fertility and home production. Our model is calibrated to Swedish data and institutions. The insights, however, are general. We find that human capital accumulation is important in accounting for the widening of the gender wage gap following children. Childcare subsidies promote maternal employment and fertility, but – depending on the size of the subsidy – this can be at the expense of aggregate hours. A subsidy on home goods increases female employment, but primarily later in life. Thus, it would not dampen the widening of the gender gap.

 [Laun-Having It All Employment, Earnings and Children-160.pdf](#)


**11:00am - 11:30am**

**Job search assistance and displacement effects: Evidence from a randomized experiment**

**Lisa Laun<sup>1</sup>, Johan Vikström<sup>1</sup>, Anders Forslund<sup>1</sup>, Maria Cheung<sup>2</sup>, Magnus Rödin<sup>2</sup>, Johan Egebark<sup>2</sup>**

<sup>1</sup>Institute for Evaluation of Labour Market and Education Policy, Sweden; <sup>2</sup>Swedish Public Employment Service, Sweden

Three types of early interventions for unemployed Swedish job seekers are studied using a large-scale randomized social experiment. The two-level design with randomization over both local public employment offices and over job seekers enables us to estimate both treatment and displacement effects. Our main findings are that intensified meetings with caseworkers reduce unemployment rates for the participants, but almost all of the effects are due to displacement effects on the non-participants. Analysis of the mechanisms behind the observed effects shows that the positive effect of the intensified meetings are due to an increased number of job vacancy proposals and referrals from caseworkers to the treated unemployed workers. We also show that the observed displacement effects are due to displacement of jobs and not due to displacement of resources.

 [Laun-Job search assistance and displacement effects-156.pdf](#)

**11:30am - 12:00pm**

**Tax Subsidization of Household Services and Refugees' Labor Market Integration**

**Johanna Rickne**

Stockholm University, Sweden

This paper studies the labor market integration of refugees from a public policy aspect. In 2007, Sweden introduced a generous tax subsidy for domestic services which led to a rapid expansion of the demand for household cleaning. The paper offers a demographic description of the employees in tax subsidized firms, focusing on their sex, education length, and refugee status. Annual administrative data is also used to follow these employees over time, before their entry and after their exit into these firms. Particular attention is paid to entry from social welfare programs or unemployment, and exit into higher-paying jobs, entrepreneurship, or higher education. Preliminary evidence shows that the tax subsidy had a positive impact on the employment prospects of foreign-born women from European countries, but less so for refugees and people with short education.

 [Rickne-Tax Subsidization of Household Services and Refugees' Labor Market Integration-523.pdf](#)

**12:00pm - 12:30pm**

**Financial Risk-Taking and Wages. Evidence and Implications for the Gender Wage Gap**

**Per-Anders Edin<sup>2,1</sup>, Håkan Selin<sup>1</sup>**

<sup>1</sup>Institute for Evaluation of Labour Market and Education Policy (IFAU), Sweden; <sup>2</sup>Uppsala University

Is higher financial risk-taking on average associated with better labor market outcomes? We examine if higher financial risk-taking is associated with higher wage rates. To this end we use administrative data on individual level wealth portfolios and monthly wages from Sweden. This is the first study that estimates wage equations including an individual level measure of financial risk. We find that the individual's share of risky assets to total financial assets is significantly and positively associated with the wage rate. In line with previous research, we find that women hold significantly less risky assets than men do. Could differences in financial risk-taking explain parts of the gender wage gap? An "upper bound estimate" is that our risk measure explains 7.5% of the observed gender difference in wages.

 [Edin-Financial Risk-Taking and Wages Evidence and Implications-382.pdf](#)

**10:30am - 12:30pm**

**Room B3109, Pinni B building**

**C03: Death and Bequests**

10:30am - 11:00am

**Inheritance tax evasion: spousal bequests and under-reporting of estate sizes in Sweden****Sebastian Escobar**

Uppsala University, Sweden

This study estimates the extent of estate size under-reporting. It uses a Regression discontinuity design that compares the estates of individuals passing away just before and after the repeal of the Swedish tax on spousal bequests, in 2004. That is, it compares estates for which there were and for which there weren't incentives to under-report. The results show that, on average, estate sizes were 17 percent lower, and the share of estates completely evading tax payments was 26 percent larger, due to under-reporting. As a consequence, government revenues from the tax were only half of what they would have been without under-reporting. Moreover, preferences and means for under-reporting were widespread and prevalent also among those receiving relatively small inheritances, but the people receiving the largest estates under-reported the most.

 [Escobar-Inheritance tax evasion-299.pdf](#)

11:00am - 11:30am

**Long-Term Care Policy with Nonlinear Strategic Bequests****Chiara Canta<sup>1</sup>, Helmut Cremer<sup>2</sup>**<sup>1</sup>Toulouse Business School, France; <sup>2</sup>Toulouse School of Economics, France

We study the design of long-term care (LTC) policies when children differ in their cost of providing informal care. Parents do not observe this cost, but they can commit to a "bequests rule" specifying a transfer conditional on the level of informal care. Care provided by high-cost children is distorted downwards in order to minimize the rent of low-cost ones. Social LTC insurance is designed to maximize a weighted sum of parents' and children's utility. The optimal uniform public LTC provision strikes a balance between insurance and children's utility. A nonuniform policy conditioning LTC benefits on bequests provides full insurance even against the risk of having children with a high cost of providing care. Quite surprisingly the level of informal care induced by the optimal (uniform or nonuniform) policy always increases in the children's welfare weight.

 [Canta-Long-Term Care Policy with Nonlinear Strategic Bequests-167.pdf](#)

11:30am - 12:00pm

**Death And Taxes: Mortality's Implications For Optimal Tax Policy****Kai Brücknerhoff, Aart Gerritsen**

Erasmus University Rotterdam, Netherlands

We determine optimal labor-income and capital taxes in an economy with both income inequality and heterogeneous mortality risk. We show that optimal tax policy crucially depends on the nature of information asymmetries between consumers and annuity providers. In the absence of any information asymmetries, it is optimal to tax capital when mortality risk is negatively correlated with earning ability. The same conclusion holds when annuity providers only observe individuals' income. However, when annuity providers only observe individuals' deaths -- or when functioning annuity markets are absent altogether because annuity providers cannot even observe individuals' deaths -- the sign of the optimal capital tax is ambiguous as the government might want to subsidize capital to alleviate adverse selection problems in the annuity market. Labor-income taxes should also be adjusted to take account of adverse selection problems in the annuity market.

 [Brücknerhoff-Death And Taxes-421.pdf](#)

12:00pm - 12:30pm

**Premature Deaths, Accidental Bequests and Fairness****Pierre Pestieau**

CORE, Belgium

We propose to reexamine the optimal taxation of accidental bequests in an economy where individuals care about what they leave to their offspring in case of premature death. We show that, whereas the conventional 100 % tax view holds under the standard utilitarian social welfare criterion, it does not hold under the ex post egalitarian criterion, which assigns a strong weight to the welfare of unlucky short-lived individuals. From an egalitarian perspective, it is optimal not to tax, but to subsidize accidental bequests. We examine the robustness of those results in a dynamic OLG model of wealth accumulation, and show that, whereas the sign of the optimal tax on accidental bequests depends on the form of the joy of giving motive, it remains true that the 100 % tax view does not hold under the ex post egalitarian criterion.

 [Pestieau-Premature Deaths, Accidental Bequests and Fairness-164.pdf](#)

10:30am - 12:30pm  
Room D11, Main  
building

**C04: International Taxation II**

10:30am - 11:00am

**Border Adjusted Taxes, Cash Flow Taxes, and Transfer Pricing****Eric W. Bond<sup>2</sup>, Thomas A. Gresik<sup>1</sup>**<sup>1</sup>University of Notre Dame, United States of America; <sup>2</sup>Vanderbilt University, United States of America

We study the economic effects of unilateral adoption of corporate tax policies that include destination-based taxes and/or cash flow taxes in a heterogeneous agent model in which multinational firms can endogenously shift income between countries using transfer prices. We show that the standard pass through arguments no longer apply because of the income shifting behavior of multinationals. Over- or under- pass through will effect domestic consumer prices charged by multinational firms and will distort

the decision of international businesses to outsource intermediate goods or to produce them in a foreign subsidiary. We also show that welfare of the adopting country can decrease both with the adoption of destination-based taxes and the adoption of cash flow taxes.

[Bond-Border Adjusted Taxes, Cash Flow Taxes, and Transfer Pricing-154.pdf](#)

11:00am - 11:30am

### Double Tax Discrimination To Attract FDI And Fight Profit Shifting: The Role Of CFC Rules

**Andreas Haufler<sup>1</sup>, Mohammed Mardan<sup>2</sup>, Dirk Schindler<sup>3</sup>**

<sup>1</sup>University of Munich, Germany; <sup>2</sup>ETH Zurich, Switzerland; <sup>3</sup>NHH Bergen, Norway

Governments worldwide use targeted tax policies to trade off the gains from increased FDI against the cost of excessive profit shifting by multinational firms. We show that nationally optimal tax systems generally incorporate both thin-capitalization rules, which tax discriminate between purely national and multinational firms, and controlled-foreign-company (CFC) rules, which discriminate between home-based and foreign-based multinationals. In the non-cooperative policy equilibrium both thin-capitalization rules and CFC rules are set more lenient than if tax policies were chosen cooperatively, implying an `excessive' tax discrimination in favor of multinationals. We also analyze the effects of reduced transaction costs for FDI and reduced costs for debt shifting on the optimal policy mix. Our results correspond to the observed developments of anti-avoidance rules in OECD countries.

[Haufler-Double Tax Discrimination To Attract FDI And Fight Profit Shifting-187.pdf](#)

11:30am - 12:00pm

### Evaluating the aggregate efficiency of the European Union central budget

**Thomas Davoine**

Institute for Advanced Studies (IHS), Austria

The European Union budget mostly redistributes resources across its member countries. Using a multi-country general equilibrium model covering 14 European countries, I investigate the long run macroeconomic and labor market impacts of different budget options on both net recipient and net donor countries. Simulations show that one can shift prosperity from country to country, measured as gross domestic product variations, at no efficiency cost nor efficiency gains, as long as the central budget can be operated for free and net recipient countries use the transfers to stimulate economic activity, as opposed to supporting household income. If recipients only support household income, the net deadweight loss caused by the distortionary nature of taxation can reach 5% to 8% of the size of the central budget. The key policy implication is earmarking cross-country transfers for economic stimulation.

[Davoine-Evaluating the aggregate efficiency of the European Union central budget-134.pdf](#)

12:00pm - 12:30pm

### €600 Billion and Counting: Why High-Tax Countries Let Tax Havens Flourish

**Thomas Tørsløv<sup>1</sup>, Ludvig Wier<sup>1</sup>, Gabriel Zucman<sup>2</sup>**

<sup>1</sup>University of Copenhagen, Denmark; <sup>2</sup>University of California, Berkeley, USA

By combining new macroeconomic statistics on the activities of multinational companies with the national accounts of tax havens and the world's other countries, we estimate that close to 40% of multinational profits are shifted to low-tax countries each year. Profit shifting is highest among U.S. multinationals; the tax revenue losses are highest for the European Union and developing countries. We show theoretically and empirically that in the current international tax system, tax authorities of high-tax countries do not have incentives to combat profit shifting to tax havens. They instead focus their enforcement effort on relocating profits booked in other high-tax countries—in effect stealing revenue from each other. This policy failure can explain the persistence of profit shifting to low-tax countries despite the high costs involved for high-tax countries. We provide a new cross-country database of GDP, corporate profits, trade balances, and factor shares corrected for profit shifting.

[Tørsløv-€600 Billion and Counting-330.pdf](#)

10:30am - 12:30pm

Room Paavo Koli,  
Pinni A building

### C05: Corporate Tax Evasion

10:30am - 11:00am

### A Macroeconomic Analysis of Corporate Tax Evasion

**Noritaka Maebayashi**

The University of Kitakyushu, Japan

We examine whether the world trend of decreasing corporate tax rate is desirable in view of tax evasion of firms by theoretical and quantitative exercises. We explore the optimal corporate taxation under endogenous tax evasion by firms in an R&D based growth model. We obtain the following implications. Decreasing corporate tax rate brings larger welfare cost than that in the usual discussion where endogenous tax evasion of firms are not considered. Corporate tax rates should not be set to low rates, for example, 20%.

[Maebayashi-A Macroeconomic Analysis of Corporate Tax Evasion-280.pdf](#)

11:00am - 11:30am

### Global Tax Revenue Shortfalls due to Corporate Income Tax Avoidance, Evasion, and Illicit Trade: Evidence from the Tobacco Sector

**Estelle Dauchy, Erika Dayle Siu**

University of Illinois at Chicago, United States of America

The production of tobacco is concentrated among a handful of very large transnational tobacco corporations (TTCs) that operate simultaneously in several countries. These companies do not pay their fair share of corporate income taxes to the societies in which they generate profits due to three main reasons: (1) tax minimization strategies that take advantage of the complexities of international tax laws; (2) tax competition between countries, which erodes nominal corporate income tax rates worldwide; and (3) illicit trade of the tobacco products manufactured by these companies that fall in the black market. This paper combines several data sources to empirically evaluate the amount of corporate income tax revenue lost worldwide due to these three sources during 2007-2016, and finds that the tax revenue forgone from the four largest TTCs alone is in the order of US\$ 30.8 billion, representing more than 40 percent of the companies' tax revenue remittances over the period.

[Dauchy-Global Tax Revenue Shortfalls due to Corporate Income Tax Avoidance, Evasion, and Illicit Trade-551.pdf](#)

11:30am - 12:00pm

### Combating Tax Evasion: Evidence from Comparing Commercial and Business Tax Registry

**Nadine Riedel<sup>1</sup>, Kristina Strohmaier<sup>2</sup>, Collen Lediga<sup>1</sup>**

<sup>1</sup>University of Bochum, Germany; <sup>2</sup>University of Tübingen

In 2008 and 2014, the South African Revenue Services (SARS) did snapshot synchronizations of their business tax registry with the country's commercial register in an attempt to identify firms that are non-compliant with their obligation to register with SARS for business tax purposes. We analyse these interventions drawing on SARS's company register and the population of business tax returns between 2009 and 2014. Several findings emerge. Firstly, in both years, the comparisons resulted in the identification of around 300,000 non-compliant tax payers, providing prima facie evidence for significant extensive-margin tax evasion. The interventions significantly raised South African business tax revenues in the following years despite the fact that the identified 'extensive-margin-evaders' exhibit a lower propensity to submit tax returns and, conditional on return submission, report less income than comparable entities that voluntarily registered with SARS.

[Riedel-Combating Tax Evasion-334.pdf](#)

12:00pm - 12:30pm

### Collaborative Tax Evasion By Employers And Employees: Evidence From A Randomized Field Experiment In Norway

**Marie Bjørneby<sup>1</sup>, Annette Alstadsæter<sup>1</sup>, Kjetil Telle<sup>2</sup>**

<sup>1</sup>Norwegian University of Life Sciences, Norway; <sup>2</sup>Statistics Norway

Third-party reporting and employers' tax withholding are powerful compliance mechanisms, as long as the employer and employee do not collude to evade. Using data from randomly assigned on-site audits among 2,500 small Norwegian firms, we provide evidence of collusive tax evasion. We find that firms randomly assigned to on-site audit on average increased their subsequent wage reporting on behalf of their employees by 18 percent relative to firms assigned to the control group. Our results document the limitations of third-party reporting, but also that these limitations can be counteracted by relatively inexpensive on-site audits.

[Bjørneby-Collaborative Tax Evasion By Employers And Employees-471.pdf](#)

10:30am - 12:30pm

Room B3110, Pinni B building

C06: Pension Reform

10:30am - 11:00am

### Worsening Workers' Health by Lowering Retirement Age: The Malign Consequences of a Benign Reform

**Ann Barbara Bauer, Reiner Eichenberger**

University of Fribourg, Switzerland

In 2003, the retirement age of Swiss construction workers was lowered from 65 to 60. This reform has been intended to improve their health. Our study shows the opposite outcome. The human capital theory suggests that investments in employees' productivity by the employer and the employees themselves depend on the time remaining until their retirement. Hence, we hypothesize that pension reforms that reduce employees' working horizon decrease investments in work-related human capital, which translates into a higher prevalence of sickness absences, a longer absence duration, and worse health. By econometrically comparing pre- and post-reform cohorts of construction workers with other blue-collar workers, we find that among 56–60-year-old construction workers, their sickness absences increase by 1.15 %-points compared to the pre-reform period, and their probability of having health problems increases by 3.4%-points due to the reform.

[Bauer-Worsening Workers Health by Lowering Retirement Age-364.pdf](#)

11:00am - 11:30am

### Dynamic Microsimulation Analysis of Pensions: Finnish 2017 Pension Reform

**Heikki Tikanmäki, Janne Salonen, Hannu Sihvonen**

Finnish Centre for Pensions, Finland

The Finnish earnings-related pension system was reformed in 2017. The main objective of the reform were to ease the burden on public finances by extending working lives. The earliest eligibility age for old-age pension will gradually rise and the retirement incentives will change significantly.

We have completed ex-ante analysis of the reform using the ELSI microsimulation model of the Finnish Centre for Pensions. The model is based on administrative register data and it covers both the earnings-related and the national pension system of Finland. ELSI is a model with dynamic ageing without



behavioural adjustments. The behavioural changes resulting from the reform have been taken into account explicitly.

The reform indicates changes in income distribution. We analyse the impacts of the reform on working lives as well as the pension distribution.

 [Tikanmäki-Dynamic Microsimulation Analysis of Pensions-238.pdf](#)

**11:30am - 12:00pm**

### **Adverse selection in annuitization choices: Evidence from a Swiss pension fund**

**Piera Bello<sup>1</sup>, Vincenzo Galasso<sup>2</sup>**

<sup>1</sup>Università della Svizzera italiana, Switzerland; <sup>2</sup>Università Bocconi

Empirical research on the role of asymmetric information in pension markets is still very scant. Most of the existing studies use the "positive correlation" test introduced by Chiappori (2000) to show that annuity demand is correlated with ex post mortality risk. In this paper we test for "passive" adverse selection in the Swiss Social Security using an alternative test introduced by Finkelstein and Poterba (2014), which is robust to the existence of preference heterogeneity in insurance demand. We use administrative data from a large Swiss insurance company to show that individual characteristics observed but unused by the insurance company in its pricing decisions are correlated with the annuity demand. Specifically, we show that the individual place of residence helps to predict the annuitization choice. People living in municipalities with a higher mortality risk are significantly more likely to cash out their pension wealth and react strongly to annuity price changes

 [Bello-Adverse selection in annuitization choices-530.pdf](#)

**12:00pm - 12:30pm**

### **Reduced Retirement Age - Off We Go!? Evidence On The Impact Of A Pension Reform On Retirement Behavior**

**Natalie Laub**

University of Freiburg, Germany

The pension reform path predominant in many countries in the past years focused on restricting early retirement and encouraging increased labor market participation of elderly individuals. In contrast, in 2014 a reform was enacted in Germany which granted decrement-free retirement at the age of 63 for a distinct group of individuals. The analysis in this paper shows that it is probably mostly men with stable employment careers and above-average earnings who benefit from this reform. Furthermore, a regression discontinuity approach is applied using high-quality administrative longitudinal data. The results suggest that the reform was effective in the sense that among individuals who are eligible, a sharp discontinuity both in the employment rate and in the probability to retire early can be shown.

 [Laub-Reduced Retirement Age-498.pdf](#)

**10:30am - 12:30pm**

**Room B4113, Pinni B building**

**C07: Mobility**

**10:30am - 11:00am**

### **Do Commuting Subsidies Increase Mobility? Evidence from a Regression Kink Design**

**Joerg Paetzold**

university of salzburg, Austria

Using administrative data from Austria, we exploit a kink in the benefit scheme of the commuter tax break to study the effect of subsidizing commuting costs on the commuting distance of employees. Our results show a significant increase in commuting distances exactly at the income level where the subsidy becomes more generous. We test the robustness of this finding by using variation in the location of the benefit kink over time. Our results show that commuting subsidies can indeed influence commuting decisions. This finding contributes to discussions about the efficacy of such subsidies, which often are justified on the grounds of making workers more mobile.

 [Paetzold-Do Commuting Subsidies Increase Mobility Evidence-336.pdf](#)

**11:00am - 11:30am**

### **Layoff Orders, Human Capital and Occupational Mobility via Unemployment**

**Oskari Vähämaa**

University of Turku, Finland

This paper examines the equilibrium effects of occupational human capital protection during mass layoffs in a setup where human capital can depreciate during unemployment spells and commitment problems prevent markets from allocating layoffs optimally. As the consequences of the policy are tightly related to occupational mobility, the paper focuses on modeling reallocation incentives of heterogeneous workers. In a calibrated model, a policy that concentrates involuntary unemployment incidences to inexperienced workers, decreases workers' incentives to reallocate, compared to an equilibrium where everyone faces an identical unemployment risk, leading also to a decrease in aggregate unemployment. Moreover, this policy change increases the market output and on average does not harm the inexperienced workers.

 [Vähämaa-Layoff Orders, Human Capital and Occupational Mobility via Unemployment-472.pdf](#)

**11:30am - 12:00pm**

### **Tax-Induced Household Mobility: Evidence from Intra-City Income Tax Variation**

**Marcus Roller<sup>1</sup>, Kurt Schmidheiny<sup>2</sup>**

<sup>1</sup>University of Bern, Switzerland; <sup>2</sup>University of Basel, Switzerland

We estimate the elasticity of the migration of households in response to changes in the personal income tax rate. 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 income taxpayers within the 38 municipalities in the metropolitan area of Bern from 2002 to 2011, using a dynamic location choice model exploiting 119 changes in the municipal income tax rates. Detailed data on the universe of taxpayers allows us to decompose observed behavioral responses by income group and household type.

We find an elasticity of tax-induced migration of 1.17 with respect to the net of average tax rate for unmarried taxpayers with high incomes. Most of the other groups do not systematically react to income tax changes.

[Roller-Tax-Induced Household Mobility-385.pdf](#)

**12:00pm - 12:30pm**

### **Transfer Taxes and Household Mobility: Evidence from a Natural Experiment**

**Essi Eerola<sup>1</sup>, Oskari Harjunen<sup>2</sup>, Teemu Lyytikäinen<sup>1</sup>, Tuukka Saarimaa<sup>1</sup>**

<sup>1</sup>VATT Institute for Economic Research; <sup>2</sup>City of Helsinki – Urban Research and Statistics

We study the effect of the transfer tax on household mobility using Finnish registry data on the entire population in 2005–2015. In 2013, the transfer tax rate was increased for co-ops (shares in housing cooperatives), but the tax rate for directly owned single-family houses remained unchanged. This reform enables the use of the differences-in-differences design. We find that the transfer tax has a significant impact on mobility, both within and across labor markets. A 0.6 percentage point increase in the tax rate reduces both types of mobility by roughly 10 percent. Our results imply that the tax creates sizable welfare losses due to increased mismatch of dwellings and households and workers and jobs.

[Eerola-Transfer Taxes and Household Mobility-429.pdf](#)

**10:30am - 12:30pm**

**Room B4115, Pinni B building**

**C08: Lobbying**

**10:30am - 11:00am**

### **The Political Economy of Multilateral Lending to European Regions**

**Zareh Asatryan<sup>1,2</sup>, Annika Havlik<sup>1,2</sup>**

<sup>1</sup>ZEW Mannheim, Germany; <sup>2</sup>University of Mannheim, Germany

We study the political economy of allocation decisions within a major state investment bank. Our focus is the European Investment Bank (EIB) - "The Bank of the EU" - which is the largest multilateral lending institution in the world. We use administrative data on all EIB project loans aggregated at the level of European regions. We exploit information on the regions of origin of about 500 national representatives at the EIB's Board of Directors since 1959 - the decisive body for loan approvals - and show that upon appointment the probability to send back a loan to their region of origin increases by 14-19 percentage points on the extensive margin. We find evidence that this effect is driven by favoritism rather than an information advantage they have about their regions of origin.

[Asatryan-The Political Economy of Multilateral Lending to European Regions-246.pdf](#)

**11:00am - 11:30am**

### **A Numerical Analysis on Optimal Tax Policy in a rent-seeking Economy**

**Junko Doi<sup>1</sup>, Yoshimasa Aoki<sup>2</sup>, Yoshiko Hanada<sup>1</sup>**

<sup>1</sup>Kansai University, Japan; <sup>2</sup>Ritsumeikan University, Japan

Recently, Free Trade Agreement have been negotiated and implemented in various parts of the world. Free Trade is expanding, on the other hand, the governments give still subsidy to industries facing to heavily competing with the inflow of cheaper foreign goods, according to requesting from such industries. In this paper, we show that a tax amount, and combination of income and consumption tax, which maximize welfare, when the government gives subsidy to firms heavily competing with foreign goods. For this, we construct a rent-seeking model with unemployment. We think that each firm has each productivity based on Melitz(2003).

[Doi-A Numerical Analysis on Optimal Tax Policy in a rent-seeking Economy-587.pdf](#)

**11:30am - 12:00pm**

### **Competition for Influence Is Always Bad in Mixed Oligopoly**

**Tsuyoshi Shinozaki<sup>1</sup>, Isidoro Mazza<sup>2</sup>, Minoru Kunizaki<sup>3</sup>**

<sup>1</sup>Tohoku Gakuin University, Japan; <sup>2</sup>University of Catania, Italy; <sup>3</sup>Aichi University, Japan

The purpose of this paper is to analyze the effect of political lobbying on optimal privatization ratio in a closed and a two-country, mixed oligopoly model. We find that, in general, lobbying activity does not lead to a Pareto efficient allocation by optimal privatization policy in a closed and a two-country model. This is sharply contrast result in a common-agent and a multi-agent lobbying model.

[Shinozaki-Competition for Influence Is Always Bad in Mixed Oligopoly-321.pdf](#)

**12:00pm - 12:30pm**

### **Campaign Spending and Corporate Subsidies: Evidence from Citizens United**

**Cailin Slattery**

University of Virginia, United States of America

How do states decide how much to spend on incentives for firms? I identify the effect of corporate campaign spending on state subsidy-giving to firms by exploiting variation created by the 2010 *Citizens United v. FEC* Supreme Court case, which allowed corporations to spend on elections in 24 states that

previously had spending bans. I find that treatment states are 23 percentage points more likely to give a second subsidy to a firm that is already located in the state. I also find that total incentive spending increases by over \$150 million. My results suggest that campaign spending is a factor in states' subsidy-setting decisions.

[Slattery-Campaign Spending and Corporate Subsidies-449.pdf](#)

10:30am - 12:30pm  
Room B1096, Pinni B  
building

## C09: Tax Compliance I

10:30am - 11:00am

### Compliance in Teams - Implications of Joint Decisions and Shared Consequences

**Tim Lohse<sup>1,2,3</sup>, Sven Arne Simon<sup>1</sup>**

<sup>1</sup>Max Planck Institute for Tax Law and Public Finance, Germany; <sup>2</sup>Berlin School of Economics and Law, Germany; <sup>3</sup>CESifo, Germany

Inspired by recent evidence from the deception literature, this paper investigates dishonest behavior of teams in a compliance setting. We analyze whether it is the team decision-making process per se that leads to decreased compliance or the shared economic consequences. Our experimental setting consists of a repeated tax declaration task on a binary income. Subjects with a high income have an incentive to underreport and evade taxation, but this comes at the cost of a fine in case of an audit. Our results indicate that teams are substantially less compliant than individuals. Joint liability is the main driver and leads to a significant decrease in compliance rates, independent of whether the evasion decision is made by an individual subject or in a team. We find no significant evidence for an effect of group decision-making per se. The findings have implications both for the design of governance rules and enforcement policies.

[Lohse-Compliance in Teams-386.pdf](#)

11:00am - 11:30am

### Less Cheating? The Effects of Prefilled Tax Returns on Compliance Behavior of Taxpayers

**Nadja Müller, Martin Fochmann, Michael Overesch**

University of Cologne, Germany

As a consequence of the digital transformation, taxpayers are more and more often confronted with prefilled tax returns instead of blank forms. In a controlled experiment, we investigate how prefilled tax returns impact compliance behavior. We show that prefiling has a significant influence on compliance behavior and consequently on tax revenues. If tax returns are correctly prefilled, we find that individuals are more tax compliant. However, in cases of an incorrect prefiling, our results suggest that prefiling can have reverse effects. If prefilled income is lower than actual income, individuals tend to reduce tax compliance. In contrast, if prefilled income is higher than actual income, no additional influence on compliance behavior is observed. We suggest that prefilled values serve as anchors when taxpayers file their tax return and therefore impact behavior via the anchoring effect. Our findings offer insights and practical implications for the application of digital tax filing processes.

[Müller-Less Cheating The Effects of Prefilled Tax Returns-255.pdf](#)

11:30am - 12:00pm

### The Role of Information Aggregators in Tax Compliance

**Ayşe Yeliz Kacamak**

University of Michigan, United States of America

Fifty-six percent of the U.S. taxpaying population uses a paid tax preparer, but the effect of these tax preparation services on tax compliance is not well-understood. Although governments conceal the algorithms they use to determine which taxpayers to audit, tax preparation firms with large client bases may be able to infer these algorithms and therefore offer strategic advice to taxpayers. This paper formalizes this role, using a simple asymmetric information model where agents can purchase full information about the government's enforcement rules. In a competitive market for tax preparation services, demand for tax preparers is selective and increases in taxpayer income. Moreover, the presence of tax preparers always reduces compliance. Perhaps surprisingly, if the demand for strategic advice is high enough, the government can mitigate evasion by revealing full information about its audit rule.

[Kacamak-The Role of Information Aggregators in Tax Compliance-606.pdf](#)

12:00pm - 12:30pm

### Rental Income Tax Compliance: Evidence from a Field Experiment

**Essi Eerola<sup>1,4</sup>, Tuomas Kosonen<sup>2,4</sup>, Kaisa Kotakorpi<sup>1,3,4</sup>, Teemu Lyytikäinen<sup>1</sup>**

<sup>1</sup>VATT Institute for Economic Research; <sup>2</sup>Labour Institute for Economic Research; <sup>3</sup>University of Turku;

<sup>4</sup>CESifo

We study rental income tax compliance using a large-scale randomized field experiment and register data with third-party information on the ownership of apartments. We analyze the responses of potential landlords to treatment letters notifying them of stricter tax enforcement. We examine both reporting and real responses (in terms of real estate holdings). We also study spillover effects of tax enforcement in local rental markets. We find an increase in reported income after an enforcement letter is sent to landlords. We also find a reduction in real estate holdings in the following year by treated landlords.

[Eerola-Rental Income Tax Compliance-562.pdf](#)

10:30am - 12:30pm

## C10: Gender and Work

Room B4116, Pinni B  
building

10:30am - 11:00am

### Gender Disparities in Employment and Earnings in Sub-Saharan Africa: Evidence from Swaziland<sup>1</sup>

Zuzana Brixiova<sup>1</sup>, Thierry Kangoye<sup>2</sup>

<sup>1</sup>University of Cape Town, South Africa; <sup>2</sup>African Development Bank

In this paper we provide first systematic evidence on the gender disparities in the labor market in Swaziland, drawing on the country's first two (2007 and 2010) Labor Force Surveys. We find that even though the global financial crisis had a less severe effect on the labor market outcomes of women than those of men, women continue to have lower employment and labor force participation rates. Utilizing the Heckman probit selection model shows that while women account for a disproportionate share of the self-employed, they are more often than men involved in low-productivity activities and rely less on formal finance. We conclude with policies that could help Swaziland – and other middle income countries in Sub-Saharan Africa – narrow these disparities and embark on a more inclusive growth path.

 [Brixiova-Gender Disparities in Employment and Earnings in Sub-Saharan Africa-136.pdf](#)

11:00am - 11:30am

### The Impact of Affirmative Action on Gendered Occupational Segregation in South Africa

Stephan Klasen<sup>1</sup>, Anna Minasyan<sup>2</sup>

<sup>1</sup>University of Goettingen, Germany; <sup>2</sup>University of Groningen, Netherlands, The

This paper studies the impact of an affirmative action policy on occupational segregation by gender in South Africa. We estimate the effects of the Employment Equity Act of 1998, the Black Economic Empowerment Act in 2003 and the Codes of Good Conduct in 2007 on (Black) female employment in top occupations using individual level, repeated cross-section data of 21 years. The findings based on difference-in-difference-in-difference identification strategy show that the probability of Black female employment in top occupations increased after 2003, however it decreased after 2007. Overall, the effects are quite small. We offer several explanations for our findings.

 [Klasen-The Impact of Affirmative Action on Gendered Occupational Segregation-108.pdf](#)

11:30am - 12:00pm

### Fertility, Female Labour Supply and Childcare Responses to Public Policies: A Simulation Analysis

Panayiota Lyssioutou

University of Cyprus, Cyprus

We estimate a flexible structural discrete choice model of fertility, work and paid childcare and use it to simulate and assess the effects of alternative public policies. We use data on couple women in the UK that has a private childcare system, high childcare costs, falling fertility rate, has not achieved childcare utilization targets and detailed tax and benefit system that aids identification. Labour supply and fertility elasticities are estimated to be smaller when paid childcare is modelled jointly with fertility and work. Simulations show that only policies that make high quality alternatives to domestic care affordable, like childcare subsidies, can reverse the decline in fertility without adversely affecting female employment, in particular among those at risk of having their first child and the highly educated. Policies which empower women through direct income transfers or higher net wages promote either fertility or employment. We conduct a policy swapping simulation as a robustness check.

 [Lyssioutou-Fertility, Female Labour Supply and Childcare Responses-338.pdf](#)

12:00pm - 12:30pm

### The Elasticity of Formal Work in African Countries

Andy McKay<sup>4</sup>, Jukka Pirttilä<sup>1,2</sup>, Caroline Schimanski<sup>1,3</sup>

<sup>1</sup>UNU-WIDER; <sup>2</sup>University of Tampere; <sup>3</sup>Hanken School of Economics; <sup>4</sup>University of Sussex

A key policy problem in most developing countries is the extent of the informal sector, the importance of which is not decreasing over time. These countries also need to increase their tax take, which can slow down the formalization of the economy. There is very limited evidence on the wages and characteristics of jobs in different sectors and on the impact of tax changes on the size of the informal sector. This paper estimates, for several countries in Sub-Saharan Africa, the tax responsiveness of the extensive margin of formality, i.e. the propensity to participate in formal work as opposed to working at the informal sector. Using repeated cross-sections of household data from a number of African countries and grouping estimator techniques, the paper finds only very small or statistically insignificant effects of taxes on the extent of formal work.

10:30am - 12:30pm **C11: Labor Supply**

Room A1081, Pinni A  
building

10:30am - 11:00am

### The Icelandic Tax Holiday - What can be learned from a salient one year income shock?

Arnaldur Stefansson

Uppsala University, Sweden

In the late 1980s, individuals on the Icelandic labour market experienced a temporary wage shock. In particular, due to a transformation from a retroactive to a pay-as-you-earn tax system, income earned in 1987 was never taxed. Using population-wide tax registry data from 1981 to 1993, I study the intertemporal response of income to this temporary tax holiday. I show that the empirical strategy used by

Bianchi et al. (2001), who study the reform, does not identify treatment responses. However, I show how the reform can be used to identify the Frisch elasticity of intertemporal labor supply. By exploiting a progressive tax scheme before the reform, and a flat tax scheme after the reform, difference-in-difference approach can be used to identify Frisch elasticities. Overall, the paper adds to the literature on intertemporal labor supply responses, and on how to deal with heterogeneity when perfect control groups are hard to find.

[Stefansson-The Icelandic Tax Holiday-571.pdf](#)

11:00am - 11:30am

### **Piecemeal Modelling Of The Effects Of Joint Direct And Indirect Tax Reforms**

**Bart Capéau, André Decoster, Sebastiaan Maes, Toon Vanheulekom**

KU Leuven, Belgium

This paper offers a framework to establish a micro-based evaluation of a joint reform in personal income taxes, social security contributions and benefits and indirect taxes. In the absence of an encompassing model for both labour supply and the allocation of disposable income to commodities, our framework elicits the assumptions necessary to consistently combine different submodels. In addition, we use a random utility random opportunity (RURO) model for labour supply, allowing us to incorporate labour demand-side effects into the analysis. Applying this framework to a recently enacted Belgian tax shift away from labour taxes, we find substantial empirical evidence that it is important to account for indirect taxes and demand-side effects in the assessment of joint tax reforms, both from a distributional and from a budgetary perspective. As for the latter, the cost recovery effects are modest.

[Capéau-Piecemeal Modelling Of The Effects Of Joint Direct And Indirect Tax Reforms-432.pdf](#)

11:30am - 12:00pm

### **The Employment Effects of EITC Programs: the Differential Effect of Family vs. Individual-Income Based designs**

**Adi Brender<sup>1</sup>, Michel Strawczynski<sup>1,2</sup>**

<sup>1</sup>Bank of Israel; <sup>2</sup>Bank of Israel; Hebrew University of Jerusalem, Israel

Unlike the EITC programs in both the US and the UK, which supplement low-income families' earnings according to the combined family income, the Israeli EITC program is based on individual incomes. Using a large administrative panel dataset of tax and benefit records we find that the removal of the interdependence between spouses' benefits curtails the negative employment effects that were found for married women in the US and the UK (Blundell and Hoynes, 2001; Eissa and Hoynes, 2004). We find that EITC eligibility is associated with a reduction of 3 to 5 percentage points in exits from employment, about one half of the exit rate among the relevant populations. We also find that spousal collection of an EITC has no negative effect on employment. Since employment of the second earner is crucial for avoiding poverty among families, these findings stress the importance of EITC programs' design in reducing poverty among low-income families.

[Brender-The Employment Effects of EITC Programs-438.pdf](#)

12:00pm - 12:30pm

### **Does the EITC Pay for Itself? Evidence from Linked Administrative Data**

**Jacob Bastian<sup>1</sup>, Margaret Jones<sup>2</sup>**

<sup>1</sup>University of Chicago, United States of America; <sup>2</sup>U.S. Census Bureau, United States of America

The EITC requires that recipients work and has encouraged millions of lower-income mothers to enter the labor force, which likely increases the taxes they pay and decreases the public assistance they receive. Using linked CPS-IRS administrative data and dozens of federal and state EITC policy changes, we estimate the EITC-led change in tax revenue and public assistance and find that these factors completely offset the EITC's contemporaneous cost to state and federal governments. Results are robust

to various controls; subgroup responses are largest for groups most affected by the EITC; and the most recent EITC expansions still appear to largely pay for themselves. We estimate the costs of various types of EITC expansions being considered today. Furthermore, accounting for improved health, decreased crime and incarceration, and improved intergenerational outcomes suggests that the EITC more than pays for itself.

[Bastian-Does the EITC Pay for Itself Evidence from Linked Administrative Data-599.pdf](#)

10:30am - 12:30pm

Room B4117, Pinni B building

## **C12: Optimal Taxation I**

### **Optimal Second-Best Taxation When Individuals Have Social Preferences**

**Thomas Aronsson<sup>1</sup>, Olof Johansson-Stenman<sup>2</sup>**

<sup>1</sup>Umeå University, Sweden; <sup>2</sup>University of Gothenburg, Sweden

Models where people derive well-being from motives other than material self-interest - including those rooted in status concerns - are surprisingly scarce in the study of optimal redistributive taxation. In fact, despite extensive evidence from experimental research, other-regarding behavior driven by prosocial preferences is more or less absent in this literature. The purpose of the present paper is to start filling this gap by analyzing the implications for optimal income taxation of prosocial preferences related to equality and efficiency. In doing so, we take a broad perspective by examining three well-known models of social preferences developed by Fehr and Schmidt (1999), Bolton and Ockenfels (2000), and Charness and Rabin (2002), respectively. Our contribution is to analyze the implications of these three social preference models for optimal redistributive income taxation based on a discrete version of the Mirrleesian (1971) framework of optimal nonlinear income taxation.

[Aronsson-Optimal Second-Best Taxation When Individuals Have Social Preferences-224.pdf](#)

**Efficiency Gains from Tagging****Thomas Gaube, Silke Schade**

University of Osnabrueck, Germany

The paper deals with the efficiency gains from tagging, that is a policy where separate income tax schedules are designed for different groups of the population. We first show that tagging can make income taxation more efficient if either the initial tax rates are close to the Rawlsian tax rates or if the distribution of income in one of the groups differs substantially from that in the population. Second, we show that there is a trade-off between efficiency and horizontal equity if and only if the skill-distribution has the same support in all groups. Third, we establish that a Pareto-superior outcome cannot be implemented by increasing the tax burden of high-income groups, but can involve higher tax payments for low-income groups.

 [Gaube-Efficiency Gains from Tagging-552.pdf](#)

**Optimal Taxation of Income and Human Capital and Skill-Biased Technical Change****Bas Jacobs, Uwe Thuemmel**

Erasmus University Rotterdam, Netherlands, The

How should redistributive governments change tax and education policy in response to skill-biased technical change? To answer this question, this paper merges the canonical model of skill-biased technical change due to Katz and Murphy (1992) with the continuous-type Mirrlees (1971) model. Optimal marginal tax rates are shown to be independent from whether individuals are low-skilled or high-skilled, only the intercepts of the optimal tax schedules differ. Optimal marginal income tax rates follow the same formula as in Mirrlees (1971). We show that education should optimally be taxed on a net basis. Moreover, optimal tax and education policies do not exploit general-equilibrium effects on the wage distribution for redistribution. Skill-biased technical raises optimal marginal income tax rates, especially in the middle of the earnings distribution. SBTC has ambiguous effects on net taxes on education. Numerical simulations demonstrate that, strikingly, optimal income taxes and education subsidies hardly change in response to SBTC.

 [Jacobs-Optimal Taxation of Income and Human Capital and Skill-Biased Technical Change-609.pdf](#)

10:30am - 12:30pm  
Room D13, Main  
building

**C13: Labor Supply and the Family**

10:30am - 11:00am

**Are Spousal Labor Supplies Substitutes? Evidence from the Workweek Reduction Policy in China****Yueyuan Ma<sup>1</sup>, Xinzheng Shi<sup>2</sup>**<sup>1</sup>University of Pennsylvania; <sup>2</sup>Tsinghua University, China, People's Republic of

We estimate the effects of the spousal labor supply on the individual labor supply by using the workweek reduction policy implemented in China as a natural experiment. We find that an increase in the labor supply of wives significantly reduces the labor supply of husbands, while an increase in the labor supply of husbands has a negative but insignificant effect on that of their wives. However, an increase in the labor supply of the spouse increases the amount of time spent on housework of both husbands and wives. The substitution effect between the labor supplies of spouses found in our paper differs from the findings based on data from developed countries. It suggests that more resources are needed to achieve the goals set by governments in developing countries.

 [Ma-Are Spousal Labor Supplies Substitutes Evidence from the Workweek Reduction Policy-470.pdf](#)

11:00am - 11:30am

**The Effects of Parental Leave Policies in Labor Markets with Search Frictions****Sascha Drahs**

DIW Berlin, Germany

I analyze the impact of parental leave policies on fertility and female labor supply in a dynamic discrete choice framework. I stress the importance of labor market risks in the childbearing decision. I estimate a dynamic structural model with labor market search frictions based on a rich German panel dataset for the time period between 2007 and 2014. Estimates suggest that cutting the parental leave job protection period from 3 to 2 years would reduce the total fertility rate (TFR) by about .04. Furthermore, it would increase average employment by about .3 percentage points. At the same time, increasing the maximum entitlement period of parental leave benefits from 1 to 2 years increases the TFR by .14, and reduces female employment by .4 percentage points. I conclude that parental leave policies can have significant consequences for birth rates. Policies seem to be more effective at the two-year margin than beyond.

 [Drahs-The Effects of Parental Leave Policies in Labor Markets with Search Frictions-159.pdf](#)

11:30am - 12:00pm

**Universal long-term care insurance and female labor force participation: Macro-level evidence****Michihito Ando<sup>1</sup>, Furuichi Masato<sup>2</sup>, Yoshihiro Kaneko<sup>3</sup>**<sup>1</sup>Rikkyo University, Japan; <sup>2</sup>Teikyo University, Japan; <sup>3</sup>Hitotsubashi University, Japan

Exploiting the introduction of the nationwide Long-term Care Insurance (LTCI) in Japan and utilizing a synthetic control (SC) method, we examine how the LTCI introduction has changed the trends of public expenditures for in-kind benefits for the elderly, public health expenditure, and female labor force participation. Estimation results using the panel data of OECD countries (1970s-2010s) suggest that LTCI introduction substantially increased in-kind benefits for the elderly, but it did not have positive effects on female labor force participation for any age cohort. We also provide extensive placebo tests based on permuted treatment assignment and resampled donor pools to check the above conclusions.

[Ando-Universal long-term care insurance and female labor force participation-529.pdf](#)

12:00pm - 12:30pm

### The Added Worker Effect -The Netherlands During the Great Recession

**Emile Cammeraat<sup>1</sup>, Egbert Jongen<sup>1,2</sup>, Pierre Koning<sup>1,3</sup>**

<sup>1</sup>Leiden University,; <sup>2</sup>CPB Netherlands Bureau for Economic Policy Analysis; <sup>3</sup>VU University Amsterdam

We study the importance of Added Worker Effects in the Netherlands, before, during and after the Great Recession. We use a large administrative data set for the period 1999-2015 and employ differences-in-differences to estimate the effect of male partner's job displacement on female partner's income. The treatment group consists of women with a partner who is not displaced. We find that male partner's job displacement increases female partner's income with 500-1000 euro in the years after displacement. These effects are considerably smaller than the compensation from Unemployment Insurance benefits and profits made out of self-employment.

[Cammeraat-The Added Worker Effect -The Netherlands During the Great Recession-545.pdf](#)

10:30am - 12:30pm  
Room D14, Main  
building

C14: Welfare

10:30am - 11:00am

### Snowball Effects of Income Taxation on Wages: Micro Evidence and Welfare Implications

**Kazuhiko Sumiya<sup>1,2</sup>**

<sup>1</sup>Royal Holloway, University of London, United Kingdom; <sup>2</sup>Aarhus University, Denmark

Do income taxes create accumulating effects over time on pre-tax hourly wages by distorting on-the-job human capital accumulation? This paper provides micro evidence by exploiting administrative data and a tax reform in Denmark. After non-parametrically controlling for pre-reform income and covariates, I present graphical evidence and difference-in-differences (DID) estimates showing accumulating effects of taxes on wages. Further, I find suggestive evidence that learning-by-doing is the underlying channel. However, I do not find significant effects of taxes on participation in on-the-job training courses. To understand welfare implications of my findings, I construct a labor supply model with endogenous wage dynamics as a conceptual framework. Guided by the model, the DID estimates imply that the wage response has a larger impact on welfare than the hour response and that both responses create accumulating effects on welfare.

[Sumiya-Snowball Effects of Income Taxation on Wages-417.pdf](#)

11:00am - 11:30am

### Embedding as a pitfall for survey-based welfare indicators: Evidence from an Experiment

**Clemens Hetschko, Louisa von Reumont, Ronnie Schöb**

Freie Universität Berlin, Germany

Welfare measurement using multiple indicators requires knowledge about how individuals weight different aspects of well-being. The Better Life Index provides a way of resolving this individual-level weighting issue. It invites people to weight eleven dimensions embedding measurable indicators. Ideally, the specific embedding of the same indicators should not change their weights in a welfare function. Our experiment shows, however, that varying the embedding structure decisively affects people's weightings, i.e. we observe strong embedding effects. The Better Life Index hence fails to measure citizens' true preferences. Embedding thus opens a gateway to manipulating survey-based welfare measures.

[Hetschko-Embedding as a pitfall for survey-based welfare indicators-458.pdf](#)

11:30am - 12:00pm

### Promoting Education under Distortionary Taxation: A Comparison between Equality of Opportunity and Welfarism

**Pertti Haaparanta<sup>1</sup>, Ravi Kanbur<sup>2</sup>, Tuuli Paukkeri<sup>3</sup>, Jukka Pirttilä<sup>4</sup>, Matti Tuomala<sup>5</sup>**

<sup>1</sup>Aalto University, Finland; <sup>2</sup>Cornell University, United States of America; <sup>3</sup>VATT Institute for Economic Research, Finland; <sup>4</sup>University of Tampere, UNU-WIDER, Finland; <sup>5</sup>University of Tampere, Finland

The paper examines how a government with an objective function motivated by the Equality of Opportunity philosophy should select public provision of, or price subsidies on, goods that influence opportunities, in the presence of distortionary taxation. The canonical example of such a good is education, whose costly public provision reduces inequality of opportunities. The paper also compares the optimal provision and tax rules chosen by an Equality of Opportunity type of government with similar rules for the conventional, welfarist, case. The results suggest that the government may want to set progressive taxes just to reduce Equality of Opportunity. The choice between subsidizing education (or by providing education directly) versus redistributing income depends on the relative efficiency of these instruments to level the playing field in educational attainment.

[Haaparanta-Promoting Education under Distortionary Taxation-323.pdf](#)

12:00pm - 12:30pm


### Superstars and mediocrities: A solution based on personal income taxation

**Diego d'Andria**

European Commission - JRC, Spain

The markets for talent often produce large income inequality and therefore raise political attention. While such inequality can be due to superstar dynamics or factor complementarities, Terviö (2009) first proposed a market failure that was previously unknown to the literature, pointing to long-term contracts as a solution. I extend the model in Terviö (2009) to include personal income tax policy reforms and

demonstrate that tax design can be employed as a solution to the market failure when long-term contracts are unfeasible. With reasonably small enough entry payments that novice workers would sustain to compensate employers for the possibility to be discovered as high-talent types, both a progressive tax and a tax incentive on entry wages are found effective. The tax incentive on entry wages, though, can be used even with very large deductible entry payments and with overall negative net entry wages.

 [dAndria-Superstars and mediocrities-213.pdf](#)

**10:30am - 12:30pm**  
Room A07, Main  
building

## **C15: Local Governments II**

**10:30am - 11:00am**

### **Public Expenditures and Debt at the Subnational Level: Evidence of Fiscal Smoothing from Argentina**

**Martin Besfamille<sup>1</sup>, Nicolas Grosman<sup>2</sup>, Diego Jorrat<sup>3</sup>, Osmel Manzano<sup>4</sup>, Pablo Sanguinetti<sup>5</sup>**

<sup>1</sup>Instituto de Economía, Pontificia Universidad Católica de Chile, Chile; <sup>2</sup>McKinsey & Co.; <sup>3</sup>Gobierno de la Ciudad de Buenos Aires; <sup>4</sup>Interamerican Development Bank; <sup>5</sup>Corporación Andina de Fomento

This paper uses the particular features of the tax-sharing regime "Coparticipación Federal de Impuestos" and the fact that some provinces earn hydrocarbon royalties to investigate public expenditures and debt at the subnational level in Argentina. We obtain that facing a one peso increase in intergovernmental transfers, provinces spend on average 36 cents in public expenditures with no changes in public debt. On the other hand, when royalties increase one peso, 59 cents are used to pay back public debt while public expenditures are not affected. These results, which are robust to many different specifications of the basic regressions, suggest a non-negligible expenditure/ debt smoothing behavior of Argentine provinces.

**11:00am - 11:30am**

### **Effects of Municipal Mergers on Voter Turnout**

**Simon Lapointe, Tuukka Saarimaa, Janne Tukiainen**

VATT, Finland

We study the effects of municipal mergers on voter turnout in a difference-in-differences framework, using data from a wave of municipal mergers in Finland in 2009. Using data from two pre-merger elections and three post-merger elections, spanning a total of 17 years, we find that municipal mergers decrease voter turnout substantially in the relatively small municipalities compared to similar small municipalities that did not merge. We also find that virtually nothing happens to turnout in the municipalities that were relatively large within their merger. We also find that mergers decrease political efficacy among the voters, which may partly explain the decrease in turnout.

**11:30am - 12:00pm**

### **Economic Policies of Competent Politicians: An Empirical Assessment**

**Jaakko Pekka Meriläinen**

Stockholm University, Sweden

Should we care about having good politicians not only because they matter for voters, but also because they improve policy? This paper addresses two intertwined questions empirically: (i) what is the relationship between candidate quality and ideology, and (ii) how does having representatives of higher quality affect fiscal policies. To do so, I combine detailed microdata on politicians coming from administrative registries with unique survey data on electoral candidates' preferences for economic policies, and aggregate-level data on local governments' fiscal policy outcomes. The results imply that conservative politicians of higher quality (high-income politicians, re-elected incumbents, or competent politicians) improve fiscal sustainability outcomes without undermining public goods and services provision. Moreover, high-quality politicians with liberal ideology (university-educated politicians) increase the size of the public sector without sacrificing fiscal sustainability. Thus, we can have ideologically engaged representatives who still implement better policies.

**12:00pm - 12:30pm**

### **Political Alignment or Ideology? The Effect of Political Parties on Local Fiscal Policy in the UK**

**Francesco Porcelli<sup>1</sup>, Ben Lockwood<sup>2</sup>**

<sup>1</sup>SOSE SpA, Italy; <sup>2</sup>University of Warwick

This paper uses a regression-discontinuity design to evaluate the effect of political parties at the local level in England and Wales over the period 1993-2012, taking into account political biases in the allocation of central government grants, which are very important for local government funding. Our first finding is that there is evidence of an alignment effect in grants; local authorities that are politically aligned with the party in power nationally appear to get around 20% more per capita in grants than unaligned ones. This in turn implies that the grant should be included in our estimation of the effect of Labour control on fiscal variables, and, can be instrumented by alignment. Once this is done, it turns out that political control (Labour or Conservative) has no effect on current expenditure or the tax requirement.

**12:30pm - 1:30pm**

**Lunch**

**1:30pm - 3:30pm**

Main auditorium  
(Juhlasali), Main  
building

## **D01: Special Session on the occasion of Matti Tuomala's retirement**

Session Chair: **Jukka Pirttilä**, University of Tampere

Opening: Elina Tuominen



**Assessing Tax Perturbations: a Norwegian Case****Vidar Christiansen<sup>1</sup>, Thor Olav Thoresen<sup>1,2</sup>, Jia Zhiyang<sup>2</sup>**<sup>1</sup>University of Oslo, Norway; <sup>2</sup>Statistics Norway

Taking a piecemeal tax reform approach to tax analysis in the spirit of Feldstein (1976), we establish a framework for assessing perturbations of the income tax schedule. It decomposes a reform into a change in tax level and a structural reform part. Focussing on the latter, the analysis singles out four effects: A social efficiency effect measured as the change in tax revenue due to behavioural changes. Distributional impact due to mechanical effects. Equity effects and overall welfare effects conditional on inequality aversion. Applying our approach to changes in the piecewise linear income tax in Norway during 2016-2018, we find the empirical efficiency, distributional and overall welfare effects. The empirical part is based on Norwegian data and estimates of labour supply responses. The main finding is that there is a positive social efficiency effect paralleled by redistribution in favour of the better-off households.

 [Christiansen-Assessing Tax Perturbations-612.pdf](#)**On The Volume of Redistribution: Across Income Levels and Across Groups****Ravi Kanbur**

Cornell University, United States of America

Abstract not available.

 [Kanbur-On The Volume of Redistribution-613.pdf](#)

**1:30pm - 3:30pm**  
**Room D11, Main**  
**building**

**D02: Tax Competition II****1:30pm - 2:00pm****Royalty Taxation under Tax Competition and Profit Shifting****Steffen Juranek<sup>1</sup>, Dirk Schindler<sup>2</sup>, Andrea Schneider<sup>3</sup>**<sup>1</sup>Norwegian School of Economics and NoCeT; <sup>2</sup>Norwegian School of Economics, NoCeT, and CESifo;<sup>3</sup>University of Muenster, OFS, and NoCeT

Extending a standard tax competition model for capital-enhancing technology, royalty payments, and profit shifting, this paper shows that it is always optimal to set a withholding tax on (intra-firm) royalty payments equal to the corporate tax rate and deny any deductibility of royalties. As the tax applies to the full payment, the problem of identifying the arm's-length component in a digital economy (OECD BEPS Action 1) does not apply. Most importantly, the denial of royalty deductions is the Pareto-efficient solution under coordination and the unilaterally optimal policy under competition for mobile capital. In the latter case, a weakened thin capitalization rule is a crucial part of the policy package in order to avoid negative investment effects.

 [Juranek-Royalty Taxation under Tax Competition and Profit Shifting-292.pdf](#)**2:00pm - 2:30pm****Evolutionary Tax Competition with Formulary Apportionment****Andreas Wagener**

University of Hannover, Germany

Evolutionary stability is a necessary condition for imitative dynamics of policy learning, best-practise adoption and innovation to come to a rest. We apply this concept to profit tax competition in a regime where a common and consolidated profit tax base for multi-jurisdictional firms is divided among governments by means of formulary apportionment. In evolutionary play, governments exhibit aggregate-taking behavior: when comparing their performance with others, they ignore their impact on the consolidated tax base. Consequently, evolutionarily stable tax rates are highly inefficient. Any hope that governments could, over time, learn to tax efficiently under formulary apportionment is very slim.

 [Wagener-Evolutionary Tax Competition with Formulary Apportionment-186.pdf](#)**2:30pm - 3:00pm****How will Brexit affect Tax Competition and Tax Harmonization? The Role of Discriminatory Taxation****Samina Sultan<sup>1</sup>, Clemens Fuest<sup>1,2</sup>**<sup>1</sup>Ludwig-Maximilians University, Munich, Germany; <sup>2</sup>ifo Institute, Germany

This paper develops a model of tax competition with three countries, which initially form a union where countries refrain from using different tax rates in different sectors of the economy. We study the impact of one country leaving the union. We show that the introduction of discriminatory taxation in one country increases tax policy heterogeneity within the remaining union. Moreover, the incentives for the two remaining countries to harmonize their tax rates decline. We discuss these results in the context of the debate about the tax policy implications of Brexit.

 [Sultan-How will Brexit affect Tax Competition and Tax Harmonization The Role-172.pdf](#)**3:00pm - 3:30pm****Learning to Tax - Interjurisdictional Tax Competition under Incomplete Information****Johannes Becker<sup>1</sup>, Ronald Davies<sup>2</sup>**<sup>1</sup>University of Muenster, Germany; <sup>2</sup>University College Dublin, Ireland

We present a multi-period version of a classic tax competition model in which countries set source-based taxes under incomplete information on the tax base elasticity. This information, however, improves as they observe both their own and their neighbours' experiences. In contrast to the existing work on policy learning, we focus on learning in the presence of (fiscal) externalities. We show that, because learning can

exacerbate this externality, the value of learning can be negative and, thus, learning may be too fast. Given that variance in tax policies enhances learning, this implies that, in the sequence of Markov perfect equilibria, tax rates can be too heterogeneous. Furthermore, we contribute to the empirical tax competition literature by showing that learning generates tax patterns that look as if countries react to each other even if there are no fiscal externalities.

[Becker-Learning to Tax - Interjurisdictional Tax Competition under Incomplete Information-441.pdf](#)

**1:30pm - 3:30pm** **D03: Tax Incidence**  
**Room B3109, Pinni B**  
**building**

**1:30pm - 2:00pm**

### **Increasing or Relocating Tourism Activity After VAT Cut? On Competition and Incidence of Consumption Taxes**

**Carina Neisser, Thomas Schwab**

University of Mannheim and ZEW, Germany

The incidence of tax cuts hinges on the relative elasticities of demand and supply. However, theory predicts that imperfect competition leads to a decrease in the pass-through of tax savings to consumers. We empirically test this prediction by exploiting a substantial VAT cut for a single sector in Germany. The VAT was reduced from 19% to 7% for hotel stays with no further amendments. We focus on the German-Austrian border region which is homogeneous in terms of tourism. Firms located more close to the border face intensified competition. We employ a spatial regression discontinuity design to identify the effect of varying degrees of competition on the tax incidence of the reform.

[Neisser-Increasing or Relocating Tourism Activity After VAT Cut-504.pdf](#)

**2:00pm - 2:30pm**

### **The economic incidence of social security contributions. A discontinuity approach with linked employer-employee data**

**Kai-Uwe Mueller, Michael Neumann**

DIW Berlin, Germany

We estimate economic incidence of social security contributions (SSC) based on cross-sectional earnings distributions. The approach exploits discontinuities in earnings distributions at kinks in the budget set. Contrary to most evidence in the fuels, it does not rely on policy reforms, panel data, or hours information. When kink locations are changed estimates represent equilibrium incidence. We discuss the framework proposed by Alvaredo and Saez (2007) regarding identification and related problems in applications. We suggest parametric and non-parametric estimators. The approach is applied to earnings caps of SSC in Germany. Linked employer-employee data provide precise measures of gross earnings and contributions paid which allows analyzing gross and net earnings and improves identification. We find substantial negative discontinuities at most earnings caps of SSC in the distribution of net earnings. Together with smooth gross earnings distributions around the caps this provides consistent empirical evidence that legal and economic incidence of SSC coincide.

[Mueller-The economic incidence of social security contributions A discontinuity approach with linked.pdf](#)

**2:30pm - 3:00pm**

### **Forecasting Corporate Income Tax Revenues: The Incidence of Leading and Soft Indicators in a Time Series Framework**

**Maria del Camino González Vasco, Raquel Pajares Rojo**

Institute for Fiscal Studies (Spain), Spain

This paper contributes to the empirical literature on the development and estimation of a forecasting model for Corporate Income Tax (CIT) revenue focusing on the study of macroeconomic indicators. The proposed study uses a set of predictors comprising Central Bank Balance Sheet Data and soft indicators, along with some macroeconomic variables related to domestic demand and the foreign sector, which amounts to a total of 43 initial quarterly variables. To address the problem of multicollinearity, we use a blend of statistical methods such as Principal Components Analysis and ARX (Auto-Regressive with eXogenous input) models. Results of the backtesting exercises Show that this combination successfully predicts the evolution of the CIT revenue and illustrate its usefulness as a tool for short-term CIT revenue forecasting.

[González Vasco-Forecasting Corporate Income Tax Revenues-435.pdf](#)

**3:00pm - 3:30pm**

### **Tax Incidence in a Multi-Product World: Theoretical Foundations and Empirical Implications**

**William Hoyt, David R. Agrawal**

University of Kentucky, United States of America

Partial equilibrium models of tax incidence suggest that over-shifting of taxes to the consumer is not possible if markets are perfectly competitive. We study tax incidence in a multi-product setting where commodities are complements or substitutes. We show that with perfectly competitive markets, the partial equilibrium formula often substantially mismeasures the incidence on consumers and that overshifting to the consumer is possible. A necessary condition for this to arise is that the tax must be on commodities in multiple markets and the products must be substitutes. Relative to the statutory change in taxes, "overshifting" may also arise because of tax cascading in the production process. The empirical implication is when estimating the effects of taxation, reduced form incidence estimates will capture the direct effect of the tax on the market, the indirect feedback effects resulting from price changes in other markets, and taxation of inputs to production.

[Hoyt-Tax Incidence in a Multi-Product World-595.pdf](#)

1:30pm - 3:30pm **D04: Fiscal Stimulus Policy**

Room B1096, Pinni B building

1:30pm - 2:00pm

### Are Fiscal Multiplier Estimates Politically Biased?

Zareh Asatryan<sup>1,2</sup>, Annika Havlik<sup>1,2</sup>, Friedrich Heinemann<sup>1,3</sup>, Justus Nover<sup>1,2</sup>

<sup>1</sup>ZEW Mannheim, Germany; <sup>2</sup>University of Mannheim, Germany; <sup>3</sup>University of Heidelberg, Germany

Fiscal multiplier estimates are an important parameter of interest when designing optimal fiscal policy. Being a simple policy parameter, multipliers are also widely debated and often used to favor one ideology or another. In this paper, we study the question of whether a researcher's political or ideological preferences correlate with her estimate of the fiscal multiplier. First, we test whether the authors' personal characteristics correlate with their estimated multipliers, i.e., whether left- (right-) leaning researchers estimate larger (smaller) multipliers. Second, we analyze whether the source of research funding plays a role in a researcher's estimates. Conversely, we hypothesize that multi-authored studies receive smaller estimates. Ultimately, we find support for the ideology hypothesis, and mixed results for the funding hypothesis. As for the monitoring hypothesis, we find the interaction of ideology and monitoring to be negative, once we account for different ideologies among the team of authors.

 [Asatryan-Are Fiscal Multiplier Estimates Politically Biased-405.pdf](#)

2:00pm - 2:30pm

### Debt-Overhang Effects of Fiscal Stimulus: Evidence from Thailand's First-Car-Buyer Tax Rebate Program

Athiphat Muthitacharoen<sup>1</sup>, Krislert Samphantharak<sup>2</sup>, Sommarat Chantarat<sup>3</sup>

<sup>1</sup>Chulalongkorn University, Thailand; <sup>2</sup>University of California San Diego; <sup>3</sup>Bank of Thailand

This paper examines the extent to which a fiscal stimulus involving durable goods induces financial distress and causes debt overhang. Using account-level loan data to study the impact of Thailand's first-car-buyer tax rebate scheme at both individual and postcode levels, we find that the program led to higher loan delinquency and crowded out other loan originations, which are symptoms implied by debt overhang. The adverse impacts were more pronounced for passenger cars buyers than for truck buyers and there were negative spillovers to non-participants. Our findings raise questions about the merit of promoting economic growth by inducing debt-fueled spending and suggest that the design of durable-goods stimulus policy should focus more on productive business durables than on consumer durables.

 [Muthitacharoen-Debt-Overhang Effects of Fiscal Stimulus-276.pdf](#)

2:30pm - 3:00pm

### Fiscal Stimulus and Consumption Spending

Gregor Pfeifer, Davud Rostam-Afschar, Lukas Treber

University of Hohenheim, Germany

We measure the effect of a € 5 billion Euro fiscal stimulus for the German economy in the 2009 recession on consumption decisions. This amount was distributed by the world's largest Cash-for-Clunkers program via a € 2,500 lump-sum rebate for consumers, who scrapped an old car and bought a new one. We find a marginal propensity to consume out of transitory income of 63%. Since the subsidy was earmarked for car expenditures, 45 Cents of every Euro of the subsidy was spent on cars. However, 18 Cents of every Euro of the subsidy were spent on non-durable goods, while expenditures for other durable goods or services remained largely unaffected. This suggests that the scrappage program successfully generated a large short-term fiscal multiplier of more than 2.

 [Pfeifer-Fiscal Stimulus and Consumption Spending-371.pdf](#)

3:00pm - 3:30pm

### The Spending Response to Delayed Tax Refund Disbursements for Lower-Income U.S. Households

Aditya Aladangady, Shifrah Aron-Dine, David Cashin, Wendy Dunn, Laura Feiveson, Paul Lengermann, Katherine Richard, Claudia Sahm

Board of Governors of the Federal Reserve System, United States of America

This study uses the three-week delay in the disbursement of federal income tax refunds to EITC claimants in 2017 to examine whether lower-income U.S. households smooth their spending through a large, but short-lived income shock. With a new dataset of daily, state-level retail transactions, we use time-series and cross-state variation in EITC receipt to estimate a marginal propensity to spend of 0.3 on retail goods and restaurants within one month of this income shock. This response is large given the short time horizon of the shock. In contrast to previous studies that link the EITC to durable goods purchases, we also find that spending on essentials, such as groceries, was affected by the delay. Our results suggest that a substantial portion of lower-income U.S. households do not have sufficient liquidity or access to credit to smooth their spending through even a brief disruption to their expected income.

 [Aladangady-The Spending Response to Delayed Tax Refund Disbursements-592.pdf](#)

1:30pm - 3:30pm **D05: Optimal Tax Policy**

Room B3110, Pinni B building

1:30pm - 2:00pm

### Optimal Tax and Benefit Policies with Multiple Observables

Kevin Spiritus<sup>1</sup>, Etienne Lehmann<sup>2</sup>, Sander Renes<sup>1</sup>, Floris Zoutman<sup>3</sup>

<sup>1</sup>Erasmus University Rotterdam, Netherlands; <sup>2</sup>University Panthéon-Assas Paris 2, CRED (TEPP), France; <sup>3</sup>NHH Norwegian School of Economics, Norway

We study the optimum for tax problems with multidimensional tax bases and multidimensional heterogeneity of agents. We use the Euler-Lagrange formalism to show how the optimal tax function balances efficiency versus equity considerations. The equity considerations are captured in a localized distributional characteristic, a generalization of the distributional characteristic first introduced by Feldstein (1972). We apply these findings to the optimal joint taxation of couples, and to the optimal mixed taxation of capital and labour income. We show robustness for pooling, bunching and restrictions to the tax base.

 [Spiritus-Optimal Tax and Benefit Policies with Multiple Observables-594.pdf](#)

2:00pm - 2:30pm

### **Optimal Age-Dependent Income Taxation in a Dynamic Extensive Model: The Case for Negative Participation Tax on Young People**

**Takao Kataoka<sup>2</sup>, Yoshihiro Takamatsu<sup>1</sup>**

<sup>1</sup>Shizuoka University, Japan; <sup>2</sup>Waseda University, Japan

We consider an optimal age-dependent income taxation in a dynamic model where the labor-leisure choice is the extensive margin in each period, each household faces idiosyncratic shocks to labor productivity and a pecuniary cost to work, and there is no insurance market against the idiosyncratic shocks. We show that the well-known property of an optimal participation tax rate in the static model continues to hold in our dynamic economy, and that the participation tax rates for some income groups with low consumption are likely negative. In dynamic models, the optimal participation tax rate depends on age and on labor income. Our numerical simulations suggest that a negative participation tax should be restricted to young households.

 [Kataoka-Optimal Age-Dependent Income Taxation in a Dynamic Extensive Model-212.pdf](#)

2:30pm - 3:00pm

### **Intra-Household Allocations and the Optimal Progressivity of the Income Tax**

**Tim Obermeier**

University of Mannheim, Germany

This paper studies how important intra-household bargaining is for the optimal progressivity of the income tax in a life-cycle model of marriage, divorce, labor supply and savings. Singles search for partners on the marriage market and couples decide subject to limited commitment. Intra-household bargaining amplifies the impact of productivity differences and shocks and influences the redistribution and insurance role of progressivity. Shocks to singles affect their future bargaining weight in marriage and shocks to married individuals may lead to a change in the bargaining weight due to limited commitment. Progressive taxation dampens these effects, thereby redistributing between individuals and providing additional insurance. The results suggest that these channels are quantitatively important for the optimal level of progressivity, especially when the planner is more inequality averse. The model will be used for further decomposing the roles of the commitment friction and bargaining on the marriage market.

 [Obermeier-Intra-Household Allocations and the Optimal Progressivity-574.pdf](#)

3:00pm - 3:30pm

### **Optimal Taxation with Optimal Tax Complexity: The Case of Estate Taxation**

**John Douglas Wilson, Paul L. Menchik**

Michigan State University, United States of America

. This paper constructs a model of optimal taxation with optimal tax complexity, applied to the estate tax. There are two types of taxpayers, benevolent savers and precautionary savers. The latter leave only accidental bequests, whereas the former plan to leave bequests. The government seeks to tax precautionary savers at a higher effective rate than benevolent savers, because precautionary savers have relatively low bequest elasticities. To do so, the government chooses the costs of tax avoidance so that only the benevolent savers engage in avoidance activities. In other words, there is an optimal level of tax complexity. This model is then embedded into a model of optimal nonlinear wage income taxation, and similar results are obtained. Several extensions are discussed, including methods for causing avoidance costs to differ across types of taxpayers in desirable ways. Applications of optimal tax complexity to other types of taxes are also analyzed.

 [Wilson-Optimal Taxation with Optimal Tax Complexity-540.pdf](#)

1:30pm - 3:30pm

Room A07, Main building

**D06: Inequality**

1:30pm - 2:00pm

### **Accounting the effect of tax-benefit changes on income inequality: A new method, with application to income inequality in Finland**

**Joonas Erik Aleks Ollonqvist**

University of Turku, Finland

This paper introduces a new method to analysing how the changes in tax-benefit-system have affected the income inequality. This method is a combination of microsimulation based decomposition and a multivariate regression based decomposition. It allows analysing how the policy changes have affected the importance of different characteristics in income inequality. With the variance of log of incomes, the decomposition can be made further to separate the effects caused by policy changes from the 'natural' evolution of the total price- and residual effects. This method is applied to analyse the evolution of income inequality in Finland from 1993 to 2014.

 [Ollonqvist-Accounting the effect of tax-benefit changes on income inequality-466.pdf](#)

2:00pm - 2:30pm

**Income Inequality in Israel: A Distinctive Evolution****Momi Dahan**

Hebrew University, Israel

The level of disposable income inequality in Israel has increased noticeably since the mid 1980s and as a result Israel today leads the developed countries in that regard. In contrast, market income inequality that hits a record level in 2002 has reversed its course since then and shows a sharp decline in subsequent years so that the Gini coefficient of market income in Israel is now below the OECD average. This paper offers tentative explanations for the inverted-U shaped evolution of market income inequality in Israel in the last 25 years that is distinctive in view of most developed countries experience in that same period. In addition, this article explains why Israel has one of the highest disposable income inequality but ranked below the OECD average measure of market income inequality.


 [Dahan-Income Inequality in Israel-262.pdf](#)

2:30pm - 3:00pm

**Subjective Well-being Among Deprived Young People****Rodrigo Ceni, Paula Carrasco, Ivone Perazzo, Gonzalo Salas**

Universidad de la Republica, Uruguay, Uruguay

Young people suffer higher levels of deprivation than older people, mainly in developing countries. They not only deal with barriers to get a job or to stay in the education system, but they can also erect their own barriers which prevent them from achieving desirable trajectories in the future. We analyze the effect of a Social Intermediation Program (JeR) on the Subjective Well-Being, pointing out in how it is constructed, and the different channels of its change. We develop a simple theoretical model to link subjective well-being with the own and reference wealth of the individual, the effort, and the level of aspirations, and how they can be affected by JeR. We find a negative effect of JeR on Subjective Well-Being and the main channel is through the Subjective Relative Wealth. These results help to understand the potentialities and limitations of social intermediation policies.

 [Ceni-Subjective Well-being Among Deprived Young People-541.pdf](#)

3:00pm - 3:30pm

**Rent Seeking Induced Inequality Traps****Mayuri Chaturvedi**

Columbia University, United States of America

Social scientists have argued that inequality fosters rent seeking and that rent seeking is likely to reinforce existing inequalities. In this paper, I formalize these inter-linkages by modeling rent seeking in an unequal endowment economy and analyze the conditions under which an inequality trap would exist. I find that when the cost of rent seeking is exogenous, more inequality fosters a greater proportion of rentiers, which in turn skews the distribution further. I endogenize the cost of rent seeking by assuming that the rentiers pay the cost to a central planner, who chooses the cost per rentier to maximize her revenue. In this setting, the cost of rent seeking per rentier is higher with more inequality which results in a lower proportion of rentiers. However, ex-post inequality still increases. The results show how economies can end up in inequality traps in the presence of rent seeking.

 [Chaturvedi-Rent Seeking Induced Inequality Traps-127.pdf](#)

1:30pm - 3:30pm

Room B4113, Pinni B building

**D07: International Tax Evasion**

1:30pm - 2:00pm

**Financial Transparency To The Rescue: Effects Of Country-by-Country Reporting In The EU Banking Sector On Tax Avoidance****Hubertus Wolff, Michael Overesch**

University of Cologne, Germany

This paper analyzes the impact of financial transparency on corporate tax avoidance. We compare the effective tax rates of European banks around the introduction of Country-by-Country Reporting duties in the EU banking sector. Our results show that EU-headquartered multinational banks increase their effective tax levels relative to unaffected banks after Country-by-Country Reporting became mandatory. Moreover, we can demonstrate that particularly exposed multinational banks with activities in tax havens react in a more pronounced manner to the regulation. Our findings are supported by additional comparisons with insurance and manufacturing firms.

 [Wolff-Financial Transparency To The Rescue-138.pdf](#)

2:00pm - 2:30pm

**Germany's Efforts to Curb International Tax Evasion****Hannes Fauser<sup>1</sup>, Jakob Miethe<sup>2</sup>**<sup>1</sup>Free University Berlin, Germany; <sup>2</sup>German Institute of Economic Research (DIW Berlin), Germany

We evaluate the impact of regulatory attempts by German authorities to combat international tax evasion and report a 32-34% reduction of tax haven deposits in German banks as a reaction to bilateral information exchange. We test for reactions in monthly cross-border liabilities of German banks against non-residents employing a new narrative database of the German regulatory environment. Our findings are comparable in magnitude to a number of reference studies which confirms the choice of Germany as a valid case study for international tax evasion. We show disaggregated reactions for a list of tax havens and find large reactions to information exchange for Guernsey, the Bahamas, and Jersey. We also test a number of tax changes and data leaks. Tax evaders do not react to changes in tax rates. Leaks show

consistent signs but are hardly significant which confirms information exchange as the main focus of analysis.

[Fauser-Germanys Efforts to Curb International Tax Evasion-560.pdf](#)

**2:30pm - 3:00pm**

### **Is Panama Really Your Tax Haven? Secrecy Jurisdictions And The Countries They Harm**

**Miroslav Palanský<sup>1</sup>, Petr Janský<sup>1</sup>, Markus Meinzer<sup>2</sup>**

<sup>1</sup>Charles University, Prague, Czech Republic; <sup>2</sup>Tax Justice Network

Secrecy jurisdictions facilitate the provision of services under the cloak of secrecy to the residents of other countries, each of which is affected to varying extent by different tax havens. We quantify just how much and which countries are harmed by which secrecy jurisdictions. To that end we develop a Bilateral Financial Secrecy Index and analyse how successful countries are in improving transparency with top secrecy providers and, vice versa, how successful top secrecy providers are at avoiding transparency with countries they provide financial secrecy to. We link the results of the BFSI to data on active bilateral automatic exchange of information (AIE) relationships and assess whether policymakers' limited resources in the negotiations of these agreements are well-aimed. Our results show that so far, top secrecy providers are ahead.

[Palanský-Is Panama Really Your Tax Haven Secrecy Jurisdictions And The Countries They Harm-563.pdf](#)

**3:00pm - 3:30pm**

### **Voluntary Disclosure Schemes for Offshore Tax Evasion**

**Matthew S Gould<sup>1</sup>, Matthew D Rablen<sup>2</sup>**

<sup>1</sup>University of Westminster, United Kingdom; <sup>2</sup>University of Sheffield, United Kingdom

Tax authorities worldwide are implementing voluntary disclosure schemes to recover tax on offshore investments. Such schemes are typically designed retrospectively following the bulk acquisition of information on offshore holdings, such as the recent "Paradise" and "Panama" papers. They offer an opportunity for affected taxpayers to make a voluntary disclosure, with reduced fine rates for truthful disclosure. We characterize the taxpayer/tax authority game with and without a scheme and show that a scheme increases net expected tax revenue, decreases illegal offshore investment, increases onshore investment, and could either increase or decrease total offshore investment (legal plus illegal).

[Gould-Voluntary Disclosure Schemes for Offshore Tax Evasion-141.pdf](#)

**1:30pm - 3:30pm**

**Room B4115, Pinni B building**

**D08: Fiscal Federalism I**

**1:30pm - 2:00pm**

### **Federalism, Fiscal Asymmetries and Economic Convergence: Evidence from Indian States**

**Lekha Chakraborty, Pinaki Chakraborty**

NIPFP, India

This paper attempts to analyse the asymmetries in federalism in the context of India and test whether there is any economic convergence across States in India. Using random effects model, we found that there is no unconditional convergence of economic growth in India. However, while controlling for fiscal asymmetry, social outcomes and capital formation related variables, and when we tried a disaggregated analysis of Indian states clubbed in to coastal and inland states, we found that there is economic convergence in India, with results more robust for the coastal states. Our results from various models indicate that the crucial determinants for economic convergence are capital and investment related, with capital spending found to be positive and significantly linked to economic growth while the revenue spending is insignificant. This result has important policy implications for fiscal consolidation procedures in India.

[Chakraborty-Federalism, Fiscal Asymmetries and Economic Convergence-508.pdf](#)

**2:00pm - 2:30pm**

### **Shared Accountability and Strategic Interaction to Provide Public Education between Central and Local Governments**

**Hiroki Tanaka**

Doshisha University, Japan

In this paper, I clarified how the decentralized provision of public education had endogenously been determined by strategic behaviors among central and local politicians based on a theoretical model under the circumstances that the two-tier governments shared accountability to provide public education. I examined the determinants of local public education services using Japanese prefectural panel data.

More Specifically, I made a positive analysis to examine how the class size and educational expenditure autonomy on the level of compulsory education had been determined using the School Basic Survey and the Survey of Local Educational Expenditure. From the positive analysis, I achieved the following result: The stronger the relative power of prefectural politicians was, the further the decentralized provision of public education would progress. It showed consistency with the theoretical consequence.

[Tanaka-Shared Accountability and Strategic Interaction to Provide Public Education between Central and Local.pdf](#)

**2:30pm - 3:00pm**

### **The Stabilizing Effects of Transfers : Evidence from Swiss municipalities**

**Florian Chatagny, Gabriel Loumeau**

KOF Swiss Economic Institute, Switzerland

In this paper, we look at how local public finances reacted to the income shock following the 2007 financial crisis, and how the equalization system contributed to stabilizing fiscal aggregates such as tax rates, expenditure, public debt and assets. Using data on 219 municipalities in the Swiss canton of Aargau over 2005-2010, we show that a negative income shock reduces expenditure for contributing municipalities and that contributions provide an insurance against negative income shocks in the sense that they reduce the pro-cyclical effects on expenditure. We identify a similar mechanism for municipalities receiving transfers. For these municipalities, we additionally identify an insurance mechanism of transfers when looking at the municipal levels of debt and assets. A negative income shock increases the level of debt and reduces the level of assets, whereas the transfer system mitigates these effects.

 [Chatagny-The Stabilizing Effects of Transfers-492.pdf](#)

**3:00pm - 3:30pm**

### **Do administrative border reforms contribute to economic development? Evidence from Africa**

**Sebastian Blesse<sup>1</sup>, Thushyanthan Baskaran<sup>2</sup>**

<sup>1</sup>ZEW Mannheim, Germany; <sup>2</sup>University of Siegen, Germany

We study the effect of state-level administrative border reforms in Africa on local economic development as well as other outcomes by tracking administrative border changes over all of Africa during the period 1992-2013 with GIS techniques. Difference-in-difference estimations and event studies show that administrative mergers have persistently positive effects on developments. Splits have substantially smaller and less robust effects, but they reduce conflicts and improve attitudes towards democracy and the prevailing political system. Exploring mechanisms with hand-collected data on the motives for the border changes as well as with further data, we find that splits are presumably less conducive mergers for development than because they tend to be implemented for political reasons (i. e. to reduce ethnic tensions) rather than to increase administrative efficiency.

 [Blesse-Do administrative border reforms contribute to economic development Evidence-565.pdf](#)

**1:30pm - 3:30pm**

**Room B4116, Pinni B building**

**D09: Childcare and Family Dynamics**

**1:30pm - 2:00pm**

### **Child Labour Response to Cash and In-kind Transfers**

**Federico Tagliati**

Bank of Spain, Spain

This paper develops a household model from which I derive testable implications about child labour response to a cash and in-kind transfer in the presence of income heterogeneity. I test these predictions using data from an experimental trial in rural Mexico which randomly gave either a cash transfer or a basket of food to targeted households. Coherently with the model predictions, the response is heterogeneous across the socioeconomic status of the household. Children older than 14 living in low income households experience a reduction in the intensive margin of child labour and only when given a cash transfer; children from intermediate income households experience a reduction in work participation both on the extensive and on the intensive margin under both transfer schemes; no effect is found for children from high socioeconomic status households.

 [Tagliati-Child Labour Response to Cash and In-kind Transfers-278.pdf](#)

**2:00pm - 2:30pm**

### **Modes Of Child Care**

**Volker Meier<sup>1</sup>, Gerhard Glomm<sup>2</sup>**

<sup>1</sup>ifo Institute, Germany; <sup>2</sup>Indiana University, USA

We model choices between caring for an infant at home or through some market provision of child care. Maternal labor supply necessitates child care purchased in the market. Households are distinguished along three dimensions: (i) Exogenous income, (ii) the wage rate of the primary care giver and (iii) the quality which the primary caregiver provides for child care. The market can supply child care at varying qualities and in continuous amounts. All households value consumption and child care quality. Sources of market failure comprise taxation of labor and productivity impacts on child care not fully taken account of by parents. Optimal corrective subsidies are highly correlated with taxed paid by secondary earners. In a second-best environment, typical policies of subsidizing child care will also distort quality choices. Employing "no-use subsidies" mitigates such distortions and can also counter excessive levels of subsidies for external child care.

 [Meier-Modes Of Child Care-130.pdf](#)

**2:30pm - 3:00pm**

### **Stay Home and Stay Married? The Effect of Child Home Care Allowance on Marital Stability**

**Krista Susanna Riukula**

Aalto University and ETLA, Finland

I study the effect of the Finnish child home care allowance on marital stability. I use variation from changes in the municipal supplement to the allowance to identify the causal effect of the supplement on marital stability. I find that, while decreasing mothers' employment, the allowance increases marital stability in the long-run. A 100 euros increase in the supplement level increases the probability that the mother has the same spouse ten years later by 0.8%. For those who would have possibly stayed at home already in the absence of the municipal supplement, the supplement has no effect on the employment in the short-run, but has a positive effect on income. For them, I find a positive effect on marital stability in

the short and long-run. For those who are possibly pushed into taking home care allowance by the supplement, I find a modest positive effect on marital stability after 7years.

[Riukula-Stay Home and Stay Married The Effect of Child Home Care Allowance-152.pdf](#)

**3:00pm - 3:30pm**

### **Job Displacement, Family Dynamics and Spousal Labor Supply**

**Martin Halla<sup>1</sup>, Julia Schmieder<sup>2</sup>, Andrea Weber<sup>3</sup>**

<sup>1</sup>University of Linz and IZA; <sup>2</sup>DIW & FU Berlin, WU Vienna, IZA, Germany; <sup>3</sup>Central European University, CEPR and IZA

We study interdependencies in spousal labor supply and provide new empirical evidence on the added worker effect. Our focus are married couples in which the husband loses his job due to a firm event using data from the Austrian Social Security Database. The shock hits households in our sample at crucial stages of family formation. The high volatility in wives' pre-displacement labor market careers requires a careful choice of a control group to model the counterfactual outcome at the household level. We examine 3 quasi-experimental scenarios that are potentially affected by different types of selection on unobservables. Our analysis shows that husbands' and wives' labor market responses are remarkably consistent across all scenarios. We find that the effect of wives' labor supply responses on household income is negligible compared to the effects of unemployment insurance, which dampens especially the large initial earnings shock from displacement.

[Halla-Job Displacement, Family Dynamics and Spousal Labor Supply-590.pdf](#)

**1:30pm - 3:30pm**

**Room A1081, Pinni A building**

**D10: Education**

**1:30pm - 2:00pm**

### **School Tracking and Mental Health**

**Petri Böckerman<sup>1</sup>, Mika Haapanen<sup>1</sup>, Christopher Jepsen<sup>2</sup>, Alexandra Roulet<sup>3</sup>**

<sup>1</sup>University of Jyväskylä, Finland; <sup>2</sup>University College Dublin, Ireland; <sup>3</sup>INSEAD, France

This paper studies the causal effect on mental health of a comprehensive school reform that postponed the tracking of students into vocational and academic schools from age 11 to age 16. The reform was implemented gradually across Finnish municipalities between 1972 and 1977. Using a difference-in-difference strategy, we find that it worsened mental health for some subgroups. After the reform, females from highly educated families and males from low-educated families were more likely to be hospitalized, respectively for depression and for substance abuse. We propose an explanation based on peer effects for affected females and on discouragement for affected males.

[Böckerman-School Tracking and Mental Health-332.pdf](#)

**2:00pm - 2:30pm**

### **Early Detection of Students at Risk - Predicting Student Dropouts Using Administrative Student Data and Machine Learning Methods**

**Kerstin Schneider, Johannes Berens, Simon Oster, Julian Burghoff**

University of Wuppertal

High rates of student attrition are a major concern for universities and public policy, as dropout is not only costly for the students but also wastes public funds. To successfully reduce student attrition, it is imperative to understand which students are at risk of dropping out and what are the underlying determinants of dropout. We develop an early detection system (EDS) to predict student success as a basis for a targeted intervention. The method developed in this paper is highly standardized and uses administrative student performance and demographic data. The EDS uses regression analysis and machine learning methods to identify students at risk. It is applied on a state university and a private university of applied sciences. The prediction accuracy at the end of the 1st semester is 79% for the state university and 85% for the private university. After the fourth semester, the accuracy improves to 90% and 95% respectively.

[Schneider-Early Detection of Students at Risk-287.pdf](#)

**2:30pm - 3:00pm**

### **The Effect Of Iodine Deficiency In Adolescence On Academic Achievement In High School: Evidence From Salt Iodization In Denmark**

**Benjamin Ly Serena**

University of Copenhagen, Denmark

This paper studies the effect of iodine deficiency in childhood and adolescence on cognitive performance in high school.

Lack of iodine during pregnancy is known to cause brain damage to the fetus, but the effect of iodine deficiency in childhood is largely unexplored.

I identify the consequences of iodine deficiency by estimating the benefits of its eradication. I use an 'Intensity of Treatment' Difference-in-Differences strategy and compare the impact of the introduction of iodized salt in Denmark during 1998-2001 across areas with different initial levels of iodine deficiency. Using register data on grades of all high school graduates in Denmark from 1981 to 2011, I find that salt iodization increases the final GPA of high school students by 6-9 % of a standard deviation. My results suggest that the benefits of iodized salt policies pertain to a much broader group of individuals than previously thought.

[Serena-The Effect Of Iodine Deficiency In Adolescence On Academic Achievement In High School-518.pdf](#)

**3:00pm - 3:30pm**



### Location Choices of Swedish Independent Schools - How Does Allowing for Private Provision Affect the Education Market

**Karin Margret Edmark**

Stockholm University, Sweden

This paper studies the location decisions of Swedish start-up independent schools. It makes use of the great expansion of independent schools following the 1992 school reform to test how local market characteristics affected the likelihood of independent school entry. The results suggest that independent schools are more likely to choose locations with a higher share of students with low-educated parents and a lower share of students with Swedish-born parents, and less likely to locate in municipalities with a left-wing political majority. These results are robust to various alternative and flexible definitions of local school markets, which were employed in order to alleviate the risk of bias due to the Modifiable Areal Unit Problem. For some of the included variables, the definition of the local market however had a large impact on the results, suggesting that the issue of how to define regions in spatial analyses can be of great importance.

 [Edmark-Location Choices of Swedish Independent Schools-300.pdf](#)

1:30pm - 3:30pm  
Room B4117, Pinni B  
building

### D11: Electoral Rules

1:30pm - 2:00pm

#### The effects of direct elections on public services and spatial inequalities - Quasi-experimental evidence from Germany

**Stefanie Gaebler, Felix Roesel**

ifo Institute, Germany

There is an ongoing debate whether directly elected politicians outperform appointed politicians. We estimate the causal effect of direct elections on the administrative and economic performance of governments. Candidates running for the head of county governments in the German state of Brandenburg need the absolute majority in direct elections and winner's votes have to represent at least 15% of the eligible voters. If the 15% quorum is not reached, direct elections are suspended and county councils decide on the head of government. We exploit election outcomes around the 15% threshold where the form of government is arguably exogenous. Event-study results based on high-frequency monthly data do not show that directly elected politicians attract more businesses or speed up administrative acts such as building permits. The public employment service for long-term unemployed however becomes somewhat more effective under directly elected politicians. Psychological factors are the most likely channel explaining differences across forms of government.

 [Gaebler-The effects of direct elections on public services and spatial inequalities-362.pdf](#)

2:00pm - 2:30pm

#### Runoff Vs. Plurality: Does it Matter for Expenditures? Evidence from Italy

**Davide Cipullo**

Uppsala Universitet, Sweden

I compare the runoff system and the plurality rule in terms of the size and composition of public expenditures. To that end, I use the change in the voting rule in Italian municipalities at 15,000 residents to implement a regression discontinuity (RD) design. The results show that municipalities under the runoff system spend, on average, 20% more than those under the plurality rule. The increase in the size of the public sector is primarily driven by a large increase in administrative spending. Additionally, the greater number of candidates and the larger coalitions under the runoff system indicate lower accountability under the runoff system than under the plurality rule. This effect is compensated by an equal increase in revenues and is larger during election years and for municipalities that are not financially constrained.

 [Cipullo-Runoff Vs Plurality-189.pdf](#)

2:30pm - 3:00pm

#### Do Electoral Rules Matter for Female Representation?

**Paola Profeta, Eleanor Woodhouse**

Bocconi University, Italy

How do electoral rules affect the representation of women? We collect panel data on the universe of Italian politicians from all levels of government over the period 1987-2013 and obtain a complete picture of the career paths of male and female politicians across the whole arc of their careers in public office. We use our unique dataset to analyse the effects on female political representation of an Italian reform which, in 2005, changed the electoral rule for national elections from (mostly) majoritarian to proportional, but did not affect sub-national level elections. We find that proportional electoral rules favour the election of women. We propose a new channel through which this result is obtained, related to the way electoral systems change the distribution of political competition: under proportional rules, parties place women less frequently in uncertain seats.

 [Profeta-Do Electoral Rules Matter for Female Representation-416.pdf](#)

3:00pm - 3:30pm

#### Electoral Institutions and Intra-party Organization

**Konstantinos Matakos<sup>2</sup>, Riikka Savolainen<sup>2</sup>, Orestis Troumpounis<sup>3</sup>, Janne Tukiainen<sup>1,5</sup>, Dimitrios Xefretis<sup>4</sup>**

<sup>1</sup>VATT; <sup>2</sup>King's College London; <sup>3</sup>Lancaster University; <sup>4</sup>University of Cyprus; <sup>5</sup>London School of Economics

We study parties' optimal ideological cohesion across electoral rules, when the following trade-off is present: A more heterogeneous set of candidates is electorally appealing (catch-all party), yet, it serves policy-related goals less efficiently. When the rule becomes more disproportional, thus inducing a more favorable seat allocation for the winner, the first effect is amplified, incentivizing parties to be less cohesive. We provide empirical support using a unique data-set that records candidates' ideological positions in Finnish municipal elections. Exploiting an exogenous change of electoral rule disproportionality at different population thresholds, we identify the causal effect of electoral rules on parties' cohesion.

[Matakos-Electoral Institutions and Intra-party Organization-295.pdf](#)

**1:30pm - 3:30pm**  
Room B3107, Pinni B building

## D12: Labour Market Entry

**1:30pm - 2:00pm**

### **Internships and Labour Market Entry: Evidence from a Randomized Subsidy Program**

**Tuomo Virkola**

European University Institute, Finland

I study the effect of internships on early career labour market outcomes and on the matching of entering workers to jobs in the high-skilled labour market. I take advantage of an internship subsidy program at the University of Helsinki which allocated subsidies to employers who hired randomly selected students to work as interns. First, combining student records and registry-based employer-employee data, I show that students assigned a subsidy work in more prestigious occupations and workplaces both on the year of the subsidy assignment and following two years. Second, I construct a direct measure of worker-job match quality using unique data on individual skills on students and their colleagues and co-workers and find that the subsidy assignment improves the matching of workers to jobs. These results suggest that internships are a way to reduce matching inefficiencies around labour market entry.

[Virkola-Internships and Labour Market Entry-481.pdf](#)

**2:00pm - 2:30pm**

### **Entering The Labour Market In A Weak Economy: Scarring And Insurance**

**Jonathan Cribb<sup>1,2</sup>, Andrew Hood<sup>2</sup>, Robert Joyce<sup>2</sup>**

<sup>1</sup>University College London, United Kingdom; <sup>2</sup>Institute for Fiscal Studies, United Kingdom

We estimate the effects of entering the labour market when the economy is weak on subsequent living standards using long-running UK household survey data. We find persistent scarring effects on employment and earnings, but we also provide the first estimates of the effects on net household incomes and household expenditures – standard proxies for material living standards – and find little or no impact. This is primarily due to two forms of insurance: the tax-transfer system and, most importantly on average, the incomes of parents, with whom many adults live after leaving education. The interplay between heterogeneity in labour market scarring and insurance is key to why parental incomes insure so much of the shock: lower-educated adults experience the worst labour market scarring, but they are also highly likely to live with parents after leaving education, and the negative labour market effects do not outlast the typical period of co-residence.

[Cribb-Entering The Labour Market In A Weak Economy-393.pdf](#)

**2:30pm - 3:00pm**

### **A Tour of Labor Income Tax in the World, 1980-2012**

**Peter H. Egger<sup>1,2,3,4</sup>, Nora M. Strecker<sup>1</sup>**

<sup>1</sup>ETH Zurich, Switzerland; <sup>2</sup>CEPR; <sup>3</sup>CESifo; <sup>4</sup>GEP, WIFO

The present paper provides a comprehensive overview of details on the taxation of labor income for a variety of household types, covering self-collected data on 252 countries and territories for the years 1980 to 2012. We combine country-year-specific information on all applicable tax laws (incl. deductions, rate schedules, surtaxes, credits, and allowances for various family types and members), mandatory social security contributions, as well as all available untargeted family/child benefits. Among the details on the data we present – average and marginal tax rates, structural kinks and boundary points of the tax schedule to capture and measure progressivity, and information on the effect of taxation on the distribution of gross versus net labor incomes as measures of the redistributive effectiveness feature most prominently. For this last point, we use several progressivity indices, including pre- and post-tax Gini coefficients, on labor incomes for a large set of countries and years.

[Egger-A Tour of Labor Income Tax in the World, 1980-2012-369.pdf](#)

**3:00pm - 3:30pm**

### **The Lasting Well-being Effects of Early Adulthood Macroeconomic Crises**

**Matti Tuomas Hovi**

University of Tampere, Finland

This paper studies the effects of early adulthood macroeconomic crises on subjective well-being later in life. Using repeated cross-section data of over 90 000 individuals from the World Values Survey combined with Angus Maddison's historical data on macroeconomic circumstances, I find that experiencing a macroeconomic crisis at ages 18 to 25 is detrimental to subjective well-being. Individuals who have witnessed a large decline in real GDP in their late teens or early twenties report lower levels of well-being years later. The negative effect is largest for individuals in the bottom half of a country's income distribution.

[Hovi-The Lasting Well-being Effects of Early Adulthood Macroeconomic Crises-404.pdf](#)

**1:30pm - 3:30pm**

## D13: Optimal Policies

Room D13, Main  
building

### Climate Policy and Optimal Public Debt

**Maximilian Kellner<sup>1</sup>, Marco Runkel<sup>1,2,3</sup>**

<sup>1</sup>University of Technology Berlin, Germany; <sup>2</sup>CESifo, Munich, Germany; <sup>3</sup>NoCeT, Bergen, Norway

This paper analyzes the optimal level of public debt when taxes are used not only for funding public expenditures but also for correcting externalities from climate change. Taking into account externalities may imply the optimal policy to deviate from tax smoothing. Provided accumulated marginal damages from today's consumption are larger than those from tomorrow's consumption, the inclusion of environmental externalities decreases (increases) optimal public debt if tax rates are on the increasing (decreasing) side of the Laffer curve. The reversed holds if the accumulated marginal damage increases over time. Allowing for endogenous adaptation investments reduces the deviation from tax smoothing.

[Kellner-Climate Policy and Optimal Public Debt-358.pdf](#)

### Optimal Fiscal Policy in Incomplete Market Business Cycle Economies

**Luis Gustavo Bettoni, Marcelo Santos**

Inspira, Brazil

Individuals are subject to income shocks that creates uncertainty and can turn consumption dynamics volatile. In an economy with incomplete markets, this leads to precautionary savings, which increases the aggregate capital cumulation and reduces the interest rate, turning self insurance more costly. By increasing taxation progressivity or debt level, the government can counteract such effect. However, the insurance provision (and the redistribution) by the government usually comes with efficiency loss. In an infinite-lived agents economy with business cycle and incomplete markets we obtain the optimal public debt level and access the importance of accounting for the extensive margin of labor supply, often neglected by the literature. Considering both margins is possible to explain the OECD relationship between public debt and taxation progressivity. Accordingly, the results also suggest that in countries with lower constraints over labor market, individuals can better self-insure, hence, the fiscal policy could be focus over hand-to-mouth consumers.

[Bettoni-Optimal Fiscal Policy in Incomplete Market Business Cycle Economies-509.pdf](#)

### The Marginal Cost of Public Funds with Basic Cost-Benefit Tests: Optimal and Sub-Optimal Taxation

**Geir H M Bjertnæs**

Statistics Norway, Norway

Several studies show cases where the marginal cost of public funds (MCF) equals one. An optimized solution, where the welfare cost of raising tax revenue equals the welfare gain of uniform transfers, is crucial for this result according to Jacobs (2018). This study however shows that the MCF is between 1.04 and 1.17 in optimized solutions when basic cost-benefit tests are employed to determine the supply of public goods. Similar results are found in cases with categorical transfers to poor groups. The MCF is designed so that the welfare gain of public goods provision equals the opportunity cost of public funds, i.e. the welfare gain of social transfers. Hence, income taxation below optimum requires an even higher MCF as the opportunity cost of public funds increases.

[Bjertnæs-The Marginal Cost of Public Funds with Basic Cost-Benefit Tests-326.pdf](#)

### Income Risk in Germany over the business cycle

**Moritz Drechsel-Grau<sup>2</sup>, Andreas Peichl<sup>1</sup>, Kai Schmid<sup>2</sup>**

<sup>1</sup>ifo Institute, Germany; <sup>2</sup>ZEW, University of Mannheim, Germany

In this study we analyze (counter-)cyclical income risk using comprehensive administrative data from the German Taxpayer Panel (TPP). We assess the impact of business cycle variation across different parts of the income distribution and for various income sources. Our results help quantifying the impact of the business cycle on the income distribution and visualize the costs of economic crisis in terms of inequality changes in Germany.

Technically we follow Guvenen et al. (2014) and we are able to confirm some of their basic findings such as the countercyclical characteristics of the left-skewness of earnings shocks in the US for Germany. Beyond the scope of their study, we further investigate additional income sources such as business income as well as dividends and interest income and assess the implications of their cyclical sensitivity across the income distribution. Moreover, we provide new estimates of the parametric income process for Germany.

[Drechsel-Grau-Income Risk in Germany over the business cycle-578.pdf](#)

1:30pm - 3:30pm

Room D14, Main  
building

### D14: Savings Behavior

1:30pm - 2:00pm

### Global Imbalances, Labor Market Reforms and Precautionary Savings

**Brigitte Hochmuth<sup>1</sup>, Stephane Moyen<sup>2</sup>, Nikolai Stähler<sup>2</sup>**

<sup>1</sup>University of Nürnberg, Germany; <sup>2</sup>Deutsche Bundesbank, Germany

We build a two-region RBC model with search friction on the labor market, idiosyncratic consumption risk and limited cross-sectional heterogeneity to evaluate how labor market reforms that reduce the workers' outside option and, thereby, cut labor costs affect international competitiveness and global imbalances. In line with the literature, we find that decreasing wages augment competitiveness and trade. In addition, we can establish a direct link between the reforms and changes in the net foreign asset position via a precautionary savings channel. Applying the model to simulate far-reaching labor market reforms

undertaken in Germany in the early 2000s allows us to explain a substantial share of the observed increase in German net foreign assets. A representative agent framework is not able to reproduce any notable current account effect

 [Hochmuth-Global Imbalances, Labor Market Reforms and Precautionary Savings-415.pdf](#)

**2:00pm - 2:30pm**

### **Retirement Savings And Real-Estate Purchases**

**Monika Bütler, Katharina Hofer, Sabrina Stadelmann**

University of St. Gallen, Switzerland

We empirically study households' decision to withdraw pension funds for home purchase prior to retirement. We exploit a reform in Switzerland from 2012 that reduced incentives for advanced withdrawals: it increased the amount of non-pension equity a borrower had to provide for a home purchase. Using individual-level data from a large employer based pension fund, we find fewer advanced withdrawals after the reform, showing the restricted possibility to use pension funds as equity. At the same time, conditional on making a withdrawal, the average amount withdrawn decreases. These findings are heterogeneous with respect to urbanization and tax level. We show that none of the results are driven by changes in interest rates or wages around the reform.

 [Bütler-Retirement Savings And Real-Estate Purchases-151.pdf](#)

**2:30pm - 3:00pm**

### **The Taxation of Household Savings**

**Bert Brys, Sarita Gomez, Pierce Conor O'Reilly, Alastair Thomas**

OECD

Following the 2008 Financial and Economic crisis, there has been renewed interest in the taxation of household savings as a way to strengthen the efficiency and fairness of countries' tax systems. This report provides a detailed and timely review of the taxation of household savings in OECD and five key partner countries. The report first models marginal effective tax rates (METRs) to quantify the incentives created by these different approaches. The report then investigates the distributional effects of capital taxation by examining the distribution of asset holdings in a range of OECD countries. It also examines recent changes in the international tax environment regarding the exchange of financial account information between tax administrations. Drawing on the preceding analysis the report then discusses the resulting implications for savings tax policy.

 [Brys-The Taxation of Household Savings-296.pdf](#)

**3:00pm - 3:30pm**

### **Why do precautionary saving estimates differ so much? Theory and evidence from Swedish wealth registries**

**Jonas Kolsrud**

National Institute of Economic Research, Sweden

Precautionary wealth – assets held as a buffer for unforeseen income shocks – has been shown to account for everything between 50 percent down to only a few percent of individuals' net worth. This paper investigates why the estimates differ this much. The explanation provided here is that there are important non-linear effects of income variation on net worth. Starting from the consumption Euler equation, the accumulation of precautionary wealth is modeled as an infinite-order polynomial of the income variance. Depending on the size of an economy's income variance, and the distributional properties of income shocks, empirical estimates will differ. The theory is tested using Swedish registry data on income and wealth. Results show that linear models attribute about 40 percent of net worth to precautionary wealth while

quadratic models attribute 50 percent of net worth to precautionary wealth. This suggests a sizable approximation bias of linear models.

 [Kolsrud-Why do precautionary saving estimates differ so much Theory and evidence-411.pdf](#)

**1:30pm - 3:30pm**

**Room Paavo Koli,  
Pinni A building**

## **D15: Behavioral Anomalies**

**1:30pm - 2:00pm**

### **Optimal Defaults with Normative Ambiguity**

**Jacob Goldin<sup>2</sup>, Daniel Reck<sup>1</sup>**

<sup>1</sup>London School of Economics, United Kingdom; <sup>2</sup>Stanford Law School

Default effects are pervasive, but the reason they arise is often unclear. We study optimal policy when it is ambiguous whether an observed default effect reflects a welfare-relevant preference or a mistake by decision-makers. Within a broad class of models, determining optimal policy is impossible without resolving this normative ambiguity. Depending on the resolution, optimal policy tends in opposite directions: either minimizing the number of non-default choices or promoting active choices. We illustrate our results using data on pension contribution defaults. When selecting a non-default option reduces employee welfare by less than \$160, the optimal policy promotes active choices.

 [Goldin-Optimal Defaults with Normative Ambiguity-227.pdf](#)

**2:00pm - 2:30pm**

### **Source Dependent Preferences**

**Julian Hackinger**

Technical University of Munich, Germany

Most economic theory as well as empirical and experimental research build on the assumption that preferences are source independent. This implies perfect fungibility of money and that the value of other resources or input goods such as information do not depend on where they come from or how they had been obtained. Despite ample anecdotal, empirical, and experimental counter-evidence, the theoretical literature has mostly forgone the issue of source dependence. In this paper, I present a framework that borrows aspects from mental accounting and allows for preferences that are source-dependent while maintaining basic principles of consumer theory. Subsequently, I further specify the model. In particular, I build on research on psychological ownership to adequately match relevant empirical evidence. I use this specification to examine welfare effects of source-dependent preferences in the context of externalities with redistribution by the use of labelled transfers.

 [Hackinger-Source Dependent Preferences-474.pdf](#)

**2:30pm - 3:00pm**

### **Loss Aversion And Local Tax Rates: Evidence From Portugal**

**Christian Bruns<sup>1</sup>, Mariana Lopes da Fonseca<sup>2</sup>**

<sup>1</sup>University of Gottingen; <sup>2</sup>Max Planck Institute for Tax Law and Public Finance, Germany

In this paper, we present empirical evidence that politicians consider loss aversion of taxpayers when setting tax rates. We analyse a temporary anomaly in the Portuguese tax law: in the years 2007–2013 the default rate of the local income tax was set to the maximum rate (though municipalities could decide to charge less). This situation was corrected in 2013 when the default rate was set to the minimum (though municipalities could charge more). Although the decision problem of a municipality should not be affected by the change in default, we find that tax rates tend to be lower after the reform. While this result contradicts standard utility theory with rational taxpayers, it is consistent with loss-averse taxpayers.

 [Bruns-Loss Aversion And Local Tax Rates-502.pdf](#)

**3:00pm - 3:30pm**

### **A new year, a new you? Heterogeneity and self-control in food purchases**

**Laurens Cherchye<sup>2</sup>, Bram De Rock<sup>2,3</sup>, Rachel Griffith<sup>1,4</sup>, Martin O'Connell<sup>1</sup>, Kate Smith<sup>1,5</sup>, Frederic Vermeulen<sup>2</sup>**

<sup>1</sup>Institute for Fiscal Studies; <sup>2</sup>University of Leuven; <sup>3</sup>Universite Libre de Bruxelles; <sup>4</sup>University of Manchester; <sup>5</sup>University College London

We document that within-person variation in food choices is substantial and has potentially important consequences for nutrition, and hence well-being. We develop an approach that allows us to study the determinants of this within-person variation within an economic framework and allow for across person preference heterogeneity. We show that around one-quarter of within-person fluctuations in diet quality are explained by standard economic variables (prices and budgets) along with advertising and weather. The residual fluctuations are important and are larger for lower income and younger people, and individuals that state they are impulsive.

 [Cherchye-A new year, a new you Heterogeneity and self-control-367.pdf](#)

**3:30pm - 6:30pm**

**Excursion**

**Date: Thursday, 23/Aug/2018****9:00am - 10:30am E01: Tax Havens****Room B4116, Pinni B  
building****The International Fight against Tax Havens****Tobias Hauck**

University of Munich, Germany

As of June 2017 only one country worldwide is considered to be "non-compliant" according to the OECD's blacklist. This paper offers lobbying as a possible explanation for the limited effectiveness of measures used in the fight against tax havens thus far. I analyze the international fight against tax havens in a two country model where a high tax country exerts pressure and a low tax country lobbies against this measure. I find that pressure and lobbying are strategic substitutes and that there is an extensive margin incentive for offshore lobbying. I also show that an increase in international integration leads to a decrease in the level of profit shifting, when starting at high levels of international frictions. When generalizing the model to allow for a second low tax jurisdiction, I show that the resulting level of onshore pressure is lower than in the case of one tax haven only.

 [Hauck-The International Fight against Tax Havens-305.pdf](#)
**Costs of Tax Havens: Which Industries Are Responsible for the Hundreds Billion Dollars in Government Revenue Losses?****Petr Janský**

Charles University, Prague, Czech Republic

Multinational enterprises make use of tax havens to avoid paying corporate income taxes. I find that this costs the governments worldwide between 100 and 600 billion USD using nine recent studies. None of them assign the costs to industries. I aim to fill this gap by using some of the best available industry-level US data to determine to what extent the location of their profit is aligned with the location of their economic activities. First of my findings is that the most important tax havens are the European Union's Netherlands, Ireland and Luxembourg. Second, I systematically identify specific industries in specific tax havens responsible for the costs. Finally, I argue that the current data are not detailed enough to provide a reliable industry breakdown of the costs, but the forthcoming country-by-country data seem more promising.

 [Janský-Costs of Tax Havens-199.pdf](#)
**9:00am - 10:30am E02: Tax Revenues and Incidence****Room B3109, Pinni B  
building****9:00am - 9:30am****The Quality of the Estimators of the ETI****Thomas Aronsson, Katharina Jenderny, Gauthier Lanot**

Umeå University, Sweden

There are few arguments which support or in firm that current methods yield measurements of the ETI that can be trusted. Our first purpose is to use simulation methods to assess the bias and precision of the prevalent methods used in the literature (IV estimation and bunching methods). Thereby, we aim at (i) explaining the huge differences in empirical results, and (ii) providing arguments in favor of or against using these methods. Our second purpose is to suggest indirect inference estimation to improve the quality of the measurement. We find that the IV regression estimators may suffer from considerable bias and be quite imprecise, whereas the bunching estimators perform better in our controlled environment. We also show that using more of the information available in the data, estimators based on indirect inference principles produce more precise estimates of the ETI than any of the most commonly used methods.

 [Aronsson-The Quality of the Estimators of the ETI-465.pdf](#)
**9:30am - 10:00am****Fragility in Modeling Consumption Tax Revenue****Kazuki Hiraga<sup>1</sup>, Kengo Nutahara<sup>2,3</sup>**<sup>1</sup>Tokai University, Japan; <sup>2</sup>Senshu University, Japan; <sup>3</sup>The Canon Institute for Global Studies

This paper shows that the shape of the tax revenue curve for consumption tax and its boundedness are sensitive to (i) the functional form of utility and (ii) the use of tax revenue in neoclassical general equilibrium model. The tax revenue curve for consumption tax can be hump-shaped if the utility function is an additively separable one in consumption and labor supply, that is popular in the literature. Conversely, it cannot be hump-shaped if the utility function is traditional King-Plosser-Rebelo utility with constant labor supply elasticity, in which consumption and labor supply is non-additively separable. The use of tax revenue has significant effects on the boundedness of tax revenue. If the tax revenue is mainly used as lump-sum transfer to households, the tax revenue is likely to be unbounded, whereas it is likely to be bounded if the tax revenue is mainly used as government consumption.

 [Hiraga-Fragility in Modeling Consumption Tax Revenue-236.pdf](#)
**10:00am - 10:30am****Who Bears the Cost of Taxing the Rich? An Empirical Study on CEO Pay****Martin Ruf**

Uni Tuebingen, Germany

An increase in the top marginal tax rate by 10 percentage points raises gross CEO pay at the firm level by 12.0 %. CEOs use their bargaining power to shift their tax load partly to the employer. More powerful CEOs - measured in terms of their function or level of pay - are more successful in doing so. A higher taxation of CEO pay may thus not necessarily be the appropriate measure to reduce the increasing income inequality in the U.S. largely due to the rise of top executive compensation in large U.S. corporations.

 [Ruf-Who Bears the Cost of Taxing the Rich An Empirical Study-218.pdf](#)

9:00am - 10:30am E03

9:00am - 10:30am E04: Contracts and Property Rights

Room B3110, Pinni B building

9:00am - 9:30am

### Financing Costs and the Efficiency of Public-Private Partnerships

**Besart Avdiu<sup>1</sup>, Alfons J. Weichenrieder<sup>1,2,3</sup>**

<sup>1</sup>Goethe University Frankfurt, Germany; <sup>2</sup>Vienna University of Business and Economics; <sup>3</sup>CESifo

The paper compares provision of public infrastructure via public-private partnerships (PPPs) with provision under government management. Due to soft budget constraints of government management, PPPs exert more effort and therefore have a cost advantage. At the same time, hard budget constraints for PPPs introduce a bankruptcy risk and bankruptcy costs. Consequently, PPPs may be less efficient, although this does not result from PPPs' higher interest costs.

 [Avdiu-Financing Costs and the Efficiency of Public-Private Partnerships-282.pdf](#)

9:30am - 10:00am

### On The Optimal Use Of Correlated Information In Contractual Design Under Limited Liability

**Daniel Danau<sup>2</sup>, Annalisa Vinella<sup>1</sup>**

<sup>1</sup>University of Bari "Aldo Moro", Italy; <sup>2</sup>Université de Caen Normandie, France

Riordan/Sappington 1988 show that in an agency relationship (regulation/procurement) in which the agent's type is correlated with an ex post signal, the principal attains first best if the agent is faced with a lottery such that each type is rewarded for one signal realization and punished equally for all others. Gary-Bobo/Spiegel 2006 show that this lottery is most likely to be locally incentive compatible when the agent is protected by limited liability. We investigate how the principal should construct the lottery to attain not only local but also global incentive compatibility. The main issue with global incentive compatibility rests with intermediate types being potentially attractive reports to both lower and higher types. We show that a lottery including three levels of profit is optimal as it is most likely to be globally incentive compatible under limited liability, if local incentive constraints are strictly satisfied. We identify conditions under which first best is implemented.

 [Danau-On The Optimal Use Of Correlated Information In Contractual Design Under Limited Liability-522.pdf](#)

10:00am - 10:30am

### Property rights, collateral and interest rates. Evidence from Vietnam

**Christa Hainz<sup>1</sup>, Alexander Danzer<sup>2</sup>**

<sup>1</sup>ifo Institute, Germany; <sup>2</sup>Katholische Universität Eichstätt-Ingolstadt

This paper investigates the causal effect of the quality of property rights on the price of collateralized consumer loans. Identification stems from exogenous variation in the improvement of property rights in Vietnam – following recent accelerations of the land titling program as well as political change in provincial leaderships. We exploit a unique data set which comprises the complete loan data of one of the largest private Vietnamese banks, regional level information on the quality of property rights and legal institutions as well as an exact measure of bank competition derived from the complete relevant geo-referenced bank data of Vietnam. Our findings clearly indicate that more secure property rights reduce the cost of credit, and these results are very robust to the inclusion of competition in our regression model. Owing to an institutional peculiarity of the Vietnamese banking practice, we support our findings with a falsification exercise on 'employer-insured' loans.

 [Hainz-Property rights, collateral and interest rates Evidence-205.pdf](#)

9:00am - 10:30am E05: Shadow Economy and Corruption

Room B4113, Pinni B building

9:00am - 9:30am

### Give Me Liberty, Or I Will Produce Underground: Effects of Economic Freedom on the Shadow Economy

**Aziz Berdiev<sup>1</sup>, James W. Saunoris<sup>2</sup>, Friedrich Schneider<sup>3</sup>**

<sup>1</sup>Bryant University, United States of America; <sup>2</sup>Eastern Michigan University, United States of America;

<sup>3</sup>Johannes Kepler University Linz, Austria

This paper examines the impact of economic freedom on the shadow economy. Using panel data on over 150 countries from 2000 to 2015, we find that economic freedom is effective at reducing the spread of the shadow economy. Moreover, after disaggregating economic freedom into its five main components, the results suggest that all aspects of economic freedom significantly mitigate shadow activities with freedom from regulation exhibiting the largest impact. Overall, these findings are robust after accounting for an

alternative measure of the shadow economy, simultaneity, and outliers. Thus, countries aiming to combat the spread of shadow activities would benefit from policies that support economic freedom.

[Berdiev-Give Me Liberty, Or I Will Produce Underground-605.pdf](#)

**9:30am - 10:00am**

### **A MIMIC Approach to Measuring Corruption**

**Shih-Ying Wu**

National Tsing Hua University, Taiwan

Previous empirical studies on the causes and consequences of corruption generally rely on the survey-based indices of corruption. However, problems exist in cross-country survey data on corruption because of comparability and the hidden nature of corruption. This study utilizes the Multiple Indicators Multiple Causes model (MIMIC) to estimate the extent of corruption in different countries, and is thus able to provide an alternative measure for corruption. One of the advantages for utilizing the MIMIC model to estimate corruption is that we can obtain the out-of-sample estimates by extrapolating. Our preliminary results reveal a high correlation between our estimates and the Corruption Perception Index. However, the present results are very preliminary in that we neither extend the estimations to a larger group of countries nor a longer period of data. Future work thus includes accounting for more variables and more countries, and utilizing a longer period of data in estimations.

[Wu-A MIMIC Approach to Measuring Corruption-208.pdf](#)

**10:00am - 10:30am**

### **Growth in the Shadows: Effect of the Shadow Economy on US Economic Growth Over More Than a Century**

**Friedrich Schneider<sup>1</sup>, Rajeev Goel<sup>2</sup>, James Saunoris<sup>3</sup>**

<sup>1</sup>University of Linz, Austria; <sup>2</sup>Illinois State University; <sup>3</sup>Eastern Michigan University

Taking a long term look at the US economic growth over a century, this paper focuses on the spillover from the shadow economy to growth in the official sector over 1870 to 2014. Shadow activities might spur or retard official economic growth depending on their interactions with the formal sector and impacts on the provision of public goods and services. Our results suggests that Prior to WWII the shadow economy had a negative effect on economic growth; however, post WWII the shadow economy was beneficial to growth. The sand in the wheels effect of the shadow economy in the earlier period is especially robust to alternative considerations of possible endogeneity and an alternative set of growth determinants

[Schneider-Growth in the Shadows-123.pdf](#)

**9:00am - 10:30am**

**Room B4115, Pinni B building**

**E06: Infrastructure**

**9:00am - 9:30am**

### **Does Better Motorway Access Influence Local Tax Factors? Evidence From German Municipalities**

**Luisa Lorenz, Stefanie Gäbler**

ifo Institute for economic research, Germany

We examine how municipal highway accessibility influences local tax policy. We exploit the gradual expansion of the motorway number 20 in the East German state Mecklenburg-Western Pomerania as largest contiguous highway construction project in Germany since 1945. We argue that for non-agglomeration municipalities the access and

the opening year is close to random. Using fixed-effects regressions and comparing municipalities in different distance bands to the next highway access we find that less accessible municipalities decrease business tax factors, while those municipalities getting closest to the next highway access do not adjust their tax factors. Our findings highlight the role of infrastructure expansion in influencing local tax policy.

[Lorenz-Does Better Motorway Access Influence Local Tax Factors Evidence-559.pdf](#)

**9:30am - 10:00am**

### **Cooperation on a competitive ground? An empirical investigation of the emergence of inter-local business parks in Germany**

**Ivo Bischoff, Simon Melch, Eva Wolfschütz**

University of Kassel, Germany

An increasing number of municipalities cooperates in the field of economic development. In this paper we focus on a specific instrument in this field, namely the development of joint business parks. Our focus rests on the role of tax competition. Are inter-local business parks more likely in regions where tax competition is more severe? We address this question using data from West-German municipalities between 2000 and 2015. The answer is affirmative.

[Bischoff-Cooperation on a competitive ground An empirical investigation-570.pdf](#)

**10:00am - 10:30am**

### **Transportation Infrastructure and Local Government Taxation**

**Chongen Bai<sup>1</sup>, Loren Brandt<sup>2</sup>, Dongxing Ji<sup>1</sup>, Binzhen Wu<sup>1</sup>**

<sup>1</sup>Tsinghua University, China, People's Republic of; <sup>2</sup>Univeristy of Toronto, Canada

This paper studies the effect of transportation infrastructure on local governments' tax behavior. We exploit China's National Trunk Highway System (NTHS) to examine the highway effect on effective tax rate for the non-targeted connected counties. We apply the instrumental variable strategy based on the construction of least cost path spanning tree networks. We find that a county's connection to the NTHS



significantly reduces the effective cooperate income tax rate (CIT) in this county. The highway effect on CIT rate is much more significant for big firms, firms having higher mobility, and firms paying taxes to local tax bureau. The negative highway effect on CIT is significant on domestic firms but not on foreign firms. We find that the decrease in CIT is not driven by the increase in share of foreign firms, or the growth in output or profit. Value-added tax rate also declines in counties connected to the NTHS.

[Bai-Transportation Infrastructure and Local Government Taxation-363.pdf](#)

9:00am - 10:30am

Room A1081, Pinni A building

## E07: Tax Compliance II

9:00am - 9:30am

### Income Underreporting by the Self-employed in Europe: A Cross-Country Comparative Study

**Merike Kukk<sup>1,2</sup>, Alari Paulus<sup>3,4</sup>, Karsten Staehr<sup>1,2</sup>**

<sup>1</sup>Tallinn University of Technology, Estonia; <sup>2</sup>Eesti Pank, Estonia; <sup>3</sup>University of Essex, United Kingdom;

<sup>4</sup>Praxis Centre for Policy Studies, Estonia

This study is the first to provide comparative estimates of the extent of income underreporting by the self-employed across countries in Europe. The estimates are derived using the consumption method developed by Pissarides & Weber (1989) and the data from the 2010 wave of the harmonised EU Household Budget Survey. The estimations show that the share of income not reported by the self-employed is relatively large in many European countries, although with substantial variation across the countries. There is some regional clustering, but the shares of underreporting appear not to be related to the development level of the countries. The results are robust to changes in the model specification, the estimation method, and the choice of instruments, but are somewhat sensitive to sample restrictions and the criterion used to define self-employed households.

[Kukk-Income Underreporting by the Self-employed in Europe-510.pdf](#)

9:30am - 10:00am

### Tax evasion, Testosterone and Personality Traits

**Marcelo Arbex<sup>1</sup>, Justin M. Carre<sup>2</sup>, Shawn N. Geniole<sup>3</sup>, Enlinson Mattos<sup>4</sup>**

<sup>1</sup>University of Windsor, Canada; <sup>2</sup>Nipissing University, Canada; <sup>3</sup>Nipissing University, Canada; <sup>4</sup>Sao Paulo School of Economics, Fundacao Getulio Vargas.

High testosterone levels in men may inhibit tax evasion. From a laboratory experiment with 121 young men, we present suggestive evidence that putative markers of prenatal and pubertal testosterone exposure and some personality traits predict the decision of evading taxes. We also observe a sizable and negative, although weakly significant (at 10%), treatment effect, controlling for individual characteristics, testosterone exposure markers, medication and drugs use. Reinforced by permutation tests for the treatment variable, a lower prevalence of tax evasion in the treated group is in line with recent results that suggest testosterone may increase prosocial or less selfish behavior.

[Arbex-Tax evasion, Testosterone and Personality Traits-158.pdf](#)

10:00am - 10:30am

### Employer Withholding of Income Tax as Behavioral Enforcement Technology

**William Cynric Boning**

University of Michigan, United States of America

Income tax withholding is thought to increase tax collections substantially. This paper uses IRS administrative data to provide evidence that withholding causes taxpayers to be more compliant on multiple margins and to evaluate potential mechanisms. In difference-in-difference results that leverage the eligibility rules for the 2009-2010 Making Work Pay tax credit, a \$250 reduction in withholding makes taxpayers less likely to file tax returns on time and less likely to remit the full amount owed with their returns. Further empirical results evaluate the effect of withholding on reported income and subsequent tax debts. The predictions of models in which withholding creates a reference point or commits credit constrained and myopic taxpayers to prepayment are compared to the patterns of heterogeneous responses to the change in withholding policy.

[Boning-Employer Withholding of Income Tax as Behavioral Enforcement Technology-343.pdf](#)

9:00am - 10:30am

Room B1096, Pinni B building

## E08: Taxation and Market Imperfections

9:00am - 9:30am

### Coordination of Hours within the Firm

**Claudio Labanca<sup>1</sup>, Dario Pozzoli<sup>2</sup>**

<sup>1</sup>Monash University, Australia; <sup>2</sup>Copenhagen Business School

Hours constraints set by firms have been proposed as an important friction regulating labor supply responses to tax changes. Yet, little evidence exists on the source of these constraints or the magnitude of their effects. In this paper we use new data on hours worked at the firm-level in Denmark to explore one mechanism that leads firms to constrain hours: the need for coordination of hours among coworkers. We first document evidence of positive correlations between wages, productivity and the degree of hours coordination. We then estimate labor supply elasticities using changes to the personal income tax schedule in 2010, which affected high-wage earners differently. We find evidence of higher labor supply elasticity in firms with lower hours coordination. Furthermore, we find evidence of substantial spillover

effects on hours worked by coworkers not directly affected by the reform. These findings have important implications for tax policy evaluation.

[Labanca-Coordination of Hours within the Firm-131.pdf](#)

**9:30am - 10:00am**

### Minimum Wage Policy with Optimal Taxes and Unemployment

**Adam Michael Lavecchia**

University of Ottawa, Canada

Using a search model, I derive a novel condition that links the desirability of the minimum wage to its effect on labor force participation and employment, as well as the government's welfare weight on low-skilled workers. This condition shows that the minimum wage is welfare improving if it pushes the low-skilled labor market tightness closer to its efficient level. I estimate the causal effect of the minimum wage on low-skilled labor force participation and employment and calibrate the desirability condition. The results suggest that the minimum wage is welfare improving only if the government has very strong redistributive tastes.

[Lavecchia-Minimum Wage Policy with Optimal Taxes and Unemployment-165.pdf](#)

**10:00am - 10:30am**

### Sales Taxation, Spatial Agglomeration and the Internet

**David R. Agrawal, David E. Wildasin**

University of Kentucky, United States of America

Technological innovations facilitating e-commerce have well-documented effects on consumer behavior and firm organization in the retail sector, but the effects of these new transaction technologies on fiscal systems remain unknown. By extending models of commodity tax competition to include urban spatial structure (agglomeration) and online commerce, one can analyze strategic tax-policy interactions among neighboring localities. Consumers buy different types of commodities, sold either by traditional or by online vendors. When the cost of online shopping falls, we show that equilibrium tax rates and revenues increase in small jurisdictions and decrease in large jurisdictions with retail shopping centers. Policy commentators warn that e-commerce erodes tax revenue – true enough for some localities – but, more accurately, changing transaction costs can generate entirely new commercial and fiscal equilibria that ultimately “redistribute” tax revenues from localities with concentrations of traditional vendors toward other, typically smaller, localities.

[Agrawal-Sales Taxation, Spatial Agglomeration and the Internet-153.pdf](#)

**9:00am - 10:30am**

**E09**

**9:00am - 10:30am**

**E10: Demography, Ethnicity and Religion**

**Room D13, Main  
building**

**9:00am - 9:30am**

### Death Toll and Demographic Heterogeneity: Evidence from the Great East Japan Earthquake

**Takeshi Miyazaki**

Kyushu University, Japan

The present study investigates the causal relationship between death toll in a natural disaster and demographic heterogeneity across communities. I relate fractionalization and polarization indices to measures of the death toll caused by the GEJE (Great East Japan Earthquake). The following three results were obtained. First, demographic fractionalization is negatively associated with the death toll from the disaster. Since older people are unable to evacuate by themselves if a tsunami strikes, societies composed only of elderly people would be vulnerable in tsunami disaster. Second, demographic polarization is not found to influence the death toll. Third, the elements relating to the magnitude of the tsunami, the heights of the tsunami and its areas, capture well the variation in the resultant death toll.

[Miyazaki-Death Toll and Demographic Heterogeneity-384.pdf](#)

**9:30am - 10:00am**

### Representative Bureaucracy and The Diversity of Policing Styles

**Momi Dahan, Sharon Gilad**

Hebrew University, Israel

Current research indicates that minority police officers' responsiveness to minorities' interests is inhibited by group pressure to display their loyalty to their “blue” identity. Using over two million observations of police officer/driver contacts from four different locations (Florida, Los-Angeles, Charlotte and Louisville) we present a series of empirical analyses comparing African American and Caucasian police officers' inclination to ticket, search and arrest drivers amidst routine vehicle stops. In accord with extant research, we find that African American police officers (compared with Caucasian police officers) are more likely to use less aggressive enforcement powers (citation/ticketing). However, contrary to the portrayal of minority police officers as eager to display their success as crime fighters, we find that African American police officers are relatively disinclined to employ more aggressive policing practices (search and arrest) towards drivers of all ethnicities. The main results survive a battery of robustness checks.

[Dahan-Representative Bureaucracy and The Diversity of Policing Styles-142.pdf](#)

**10:00am - 10:30am**

### The Influence of Religion on Economic Attitudes over Time

**Klaas Staal<sup>1</sup>, Vamuyan Sesay<sup>1,2</sup>**<sup>1</sup>Karlstad University, Sweden; <sup>2</sup>Ministry of Finance and Development Planning, Liberia

We examine the influence of religion on economic attitudes over time (1981-2014), extending the approach by Guiso et al. (2003). We find that religion remains positively correlated to the development of institutions favorable for economic growth. Although these effects vary across different religious denominations, none of them seems to be an impediment to the development of government institutions, and for the most part a free market economy. Further analysis reveals that religious beliefs, irrespective of service attendance, appear to be an important measure of religiosity. Religious people exhibit more positive economic attitudes than the non-religious do. However, religious people seem to be less concerned about market competition but are more likely to support fairness. For some religions, these effects tend to remain constant over time, while for others, there are significant changes across denominations. This study thus shows that religious values and preferences are susceptible to changes over time.

 [Staal-The Influence of Religion on Economic Attitudes over Time-482.pdf](#)

**9:00am - 10:30am****Room Paavo Koli,  
Pinni A building****E11: Pensions and Bounded Rationality****9:00am - 9:30am****Increasing the Take-Up of the Housing Allowance Among Swedish Retirees: A field experiment****Johannes Hagen<sup>1</sup>, Per Engström<sup>2</sup>, Arnaldur Stefansson<sup>2</sup>, Eskil Forsell<sup>3</sup>**<sup>1</sup>Jönköping University; <sup>2</sup>Uppsala University; <sup>3</sup>Stockholm School of Economics

Using a randomized field experiment in the Swedish pension system, we investigate whether receiving an information letter affects the take-up rate of the housing allowance for pensioners. We also investigate whether the framing of the information letter affects take-up. The results show that simple information letters had a dramatic effect on the application rate and subsequent take-up rate: the baseline application rate in the targeted control population was only 1.4 percent while the corresponding rates in the different treatment groups were between 9.9 and 12.1 percent. The letter that addressed common misconceptions about the benefit caused significantly higher submission and acceptance rates. The letters had a substantial economic effect on the applicants. We estimate that the applicants, induced by the treatment, increased their monthly income by around 10 percent.

 [Hagen-Increasing the Take-Up of the Housing Allowance Among Swedish Retirees-464.pdf](#)

**9:30am - 10:00am****The Effect of Relabeling and Incentives on Retirement: Evidence from a Pension Reform****Terhi Helena Ravaska<sup>1,2</sup>, Ohto Kanninen<sup>1</sup>, Jon Gruber<sup>3</sup>, Satu Nivalainen<sup>4</sup>, Roope Uusitalo<sup>5</sup>**<sup>1</sup>Labour Institute for Economic Research, Finland; <sup>2</sup>University of Tampere; <sup>3</sup>MIT; <sup>4</sup>Finnish Centre for Pensions; <sup>5</sup>University of Jyväskylä

We exploit a reform in the Finnish public pension system to study the effect of financial incentives (wealth/income effect and substitution effect) and relabeling of pensions on retirement decisions. These effects are distinguishable in the reform due to a heterogeneous, although correlated, impact of the reform on individuals. Incentives and relabeling were affected as a function of age, accrual-to-earnings ratio and cohort. We find that all three effects played a role. Relabeling people from early retirement to full retirement alone played a major role in the behavioral effect of the reform.

 [Ravaska-The Effect of Relabeling and Incentives on Retirement-554.pdf](#)

**10:00am - 10:30am****School District Pension Reform as a Cut in State School Aid****Chuanyi Guo<sup>1</sup>, Darren Lubotsky<sup>2</sup>, David Merriman<sup>1</sup>, Jason Ward<sup>1</sup>**<sup>1</sup>University of Illinois Chicago, United States of America; <sup>2</sup>University of Illinois Chicago, United States of America, NBER

The state of Illinois is responsible for employer contributions to the public school teachers' pension system. Pensions can thus be thought of as state aid to school districts. In April 2010, Illinois reduced pension benefits offered to teachers hired after January 1, 2011 by as much as one half. Legislation delayed the effective date by about eight months however, so that school districts had a window to hire teachers under the old pension system. We show that there was no surge in hiring during the relevant window. Furthermore, there is no evidence that school districts in excellent financial condition, who should have had the financial capacity to speed up hiring, acted differently than school districts in poor financial condition. Although districts with relatively low starting wages have higher hiring rates before, during, and after the policy change we found no evidence of any systematic reaction to the policy.

 [Guo-School District Pension Reform as a Cut in State School Aid-196.pdf](#)

**9:00am - 10:30am****Room B3107, Pinni B  
building****E12: Bunching II****9:00am - 9:30am****Tax Bunching at the Kink in the presence of low capacity of enforcement: Evidence from Uruguay****Matias Giacobasso<sup>1,2</sup>, Marcelo Bergolo<sup>2,4</sup>, Gabriel Burdin<sup>2,3,4</sup>, Mauricio de Rosa<sup>2</sup>, Martin Leites<sup>2</sup>**

<sup>1</sup>UCLA, Anderson School of Management; <sup>2</sup>IECON UdeLaR; <sup>3</sup>Leeds University Business School; <sup>4</sup>IZA

A first-order policy issue in low and middle income countries is how to design optimal tax systems in order to support economic development. Although information regarding behavioral responses to taxation is a key input in tax design, evidence in developing contexts is still scarce. In this project we contribute to fill this gap using a rich and large administrative tax dataset to explore how taxpayers react to personal income taxation in Uruguay. We find an excess of mass of taxpayers of 84.7% in the first kink point of the tax schedule which implies an elasticity of taxable income of 0.16. This response is economically significant among both wage earners and self-employed taxpayers. We also document preliminary evidence about the role of learning and persistence in a recent tax schedule. The main drivers of the response are associated to a reporting behavior rather than real labor supply responses.

 [Giacobasso-Tax Bunching at the Kink in the presence of low capacity of enforcement-277.pdf](#)

9:30am - 10:00am

### **Independent Contractor or Employee? The Changing Relationship Between Firms and their Workforce and Potential Consequences for the U.S. Income Tax**

**Eleanor Reed Wilking<sup>1</sup>, Katherine Lim<sup>2</sup>, Alicia Miller<sup>3</sup>, Max Risch<sup>1</sup>**

<sup>1</sup>University of Michigan, United States of America; <sup>2</sup>U.S. Department of Treasury, United States of America; <sup>3</sup>IRS, United States of America

The number of U.S. workers classified as independent contractors has risen dramatically over the last two decades. While some of this trend reflects technological changes in how work is carried out, some of the increase may also reflect firms and workers taking advantage of the legal ambiguity between classifications to obtain preferential tax treatment or avoid complying with regulations. To study this phenomenon, we exploit a sharp discontinuity in the marginal cost of hiring an employee created by the 2010 Affordable Care Act employer mandate. Using the universe of U.S. tax returns from 1997-2015, we link firm filings to associated employees and independent contractors. We find preliminary evidence that firms substitute independent contractors for employees to qualify for size-based regulatory exemptions. We discuss empirical strategies to distinguish whether this substitution reflects re-organization in the production process (a real response), or misclassification (an evasion response).

 [Wilking-Independent Contractor or Employee The Changing Relationship Between Firms and their Workforce and.pdf](#)

10:00am - 10:30am

### **Optimal deductibility: Theory, and evidence from a bunching decomposition**

**Steven Daniel Hamilton**

University of Michigan, United States of America

I define a new tax instrument, the 'deductibility rate', which specifies the proportion of eligible expenses a taxpayer may deduct when preparing her taxes. If the utilities of gross income and deductions are separable, then the deduction elasticity reflects the revenue leakage caused by greater deductibility. To identify this elasticity, I develop the first method to decompose bunching in taxable income into its constituent parts, exploiting the removal of a notch in the tax schedule. This setting also generates an observed counterfactual density, obviating the parametric assumptions routinely made in bunching studies. Applying this method to new administrative tax data from Australia, I find an elasticity of taxable income of 0.06, the deduction elasticity is -0.45, and the gross-income elasticity is 0.04. Consistent with standard optimal-tax logic, the sensitivity of deductions to the tax rate suggests that restricting deductions could raise welfare.

 [Hamilton-Optimal deductibility-235.pdf](#)

9:00am - 10:30am  
Room D11, Main  
building

## **E13: Tax Avoidance and Evasion II**

9:00am - 9:30am

### **Misallocation or Misreporting? Evidence from a Value Added Tax (VAT) in Indi**

**Tejaswi Velayudhan**

University of Michigan, United States of America

The exemption threshold for a value added tax (VAT) is a ubiquitous and salient size-based regulatory threshold for most firms in developing countries. This paper examines the effect of a VAT on manufacturing in India – the CenVAT – on the real and reported production behavior of firms. Using a novel dataset linking the five-digit product information to applicable tariff codes, I identify establishments producing commodities subject to various CenVAT rates. Even in survey data where the firm's identity is not revealed to the tax authority and that cannot be used for audit purposes, reported revenue is on average 10 percent lower than it would be in the absence of the CenVAT. I present a model to distinguish whether this observed reduction in revenue is due to real production changes or misreporting using information on the firm's inputs. I find that the observed production distortions can largely be attributed to real behavior.

 [Velayudhan-Misallocation or Misreporting Evidence from a Value Added Tax-589.pdf](#)

9:30am - 10:00am

### **"Bringing Tax Avoiders to Light: Framing and Shaming in Public Goods Experiments"**

**Stefanos Alexander Tsikas, Andreas Wagener**

Leibniz University Hannover, Germany

With a series of public goods games in a 2x2 design, we analyze conditions which might moderate social dilemmas by amplifying cooperation without the use of monetary incentives. When we frame foregoing voluntary contributions as morally ambiguous and socially harmful tax avoidance, cooperation increases. However, cooperation is only perpetuated when free-riders are "shamed" by disclosing their misdemeanor.

We find shaming effects to be so large that rules or ethical concerns become irrelevant in determining participants' decisions.

 [Tsikas-Bringing Tax Avoiders to Light-297.pdf](#)

**10:00am - 10:30am**

### **Agency Conflicts, Institutional Quality, and Tax Aggressiveness**

**Iftekhhar Hasan<sup>1</sup>, Jing Xing<sup>2</sup>, Hui Zhou<sup>3</sup>**

<sup>1</sup>Fordham University; <sup>2</sup>Shanghai Jiao Tong University, China, People's Republic of; <sup>3</sup>Melbourne Business School, University of Melbourne

We study how agency conflicts between corporate insiders and minority shareholders influence tax avoidance. We develop a simple theoretical model to highlight the role of monitoring in shaping the relationship between agency conflicts and tax aggressiveness. Empirically, using data from China where corporate governance is generally weak, we show that agency problem leads to both greater tax aggressiveness and more rent diversion, but this result is weakened when institutional quality improves. We further show that the relationship between agency problem and tax avoidance depends on firms' political connection.

 [Hasan-Agency Conflicts, Institutional Quality, and Tax Aggressiveness-200.pdf](#)

**9:00am - 10:30am**

**Room D14, Main building**

### **E14: House Prices and Capitalization**

**9:00am - 9:30am**

#### **Effects of Property Taxes on House Prices and Time on the Market**

**Oskari Harjunen<sup>2,3</sup>, Teemu Lyttikäinen<sup>1</sup>, Tuukka Saarimaa<sup>1</sup>**

<sup>1</sup>VATT Institute for Economic Research, Finland; <sup>2</sup>City of Helsinki; <sup>3</sup>Aalto University

This paper studies the capitalization of the property tax into housing prices and tests whether the salience of the tax affects the rate of capitalization. Identifying the effect of the property tax on housing prices clean from confounding factors is challenging because local taxes and local public services are jointly determined. We utilize the fact that the Finnish general property tax applies to dwellings on owned lots but not to similar dwellings on rented lots to isolate the impact of the property tax from other determinants of housing prices. We find evidence of strong capitalization for single family houses, but also an increase in sale times. Capitalization seems to be weaker for co-op units than for single family houses. Differences in the salience of the property tax between housing types is a potential explanation.

**9:30am - 10:00am**

#### **Do Unfunded Obligations of Public-Sector Pension Plans get Capitalized into House Prices?**

**Sutirtha Bagchi**

Villanova University, United States of America

This paper examines the degree to which unfunded obligations of public-sector pension plans are capitalized into house prices. While there has been a growing focus on the size of unfunded pension obligations of state and local governments, their impact on local housing markets has been far less analyzed. Given the large number of local pension plans from the state of Pennsylvania, we turn to the state. Using data on house prices from the Decennial Census of 1990 and 2000 and the 2007-2011 American Community Survey, we find no evidence that unfunded pension obligations are capitalized into house prices.

**10:00am - 10:30am**

#### **Property Tax and Real Estate Value: A Natural Experiment from Portugal**

**Catarina Alvarez, João Pereira dos Santos**

NOVA SBE, Portugal

Tax capitalization theory predicts that a lower property tax payment leads to higher housing prices. However, the empirical evidence is scarce and one needs to consider endogeneity concerns when testing this hypothesis. We tackle these issues by exploiting a quasi-natural experiment: an unexpected reduction in the upper bound of the Portuguese property tax rate in 2008. We rely on a rich dataset on all mainland municipalities for 2004-2011 to implement a difference-in-differences approach. We find that municipalities forced to decrease the property tax rate saw a reduction in mean real estate values vis-à-vis the comparison group. An analysis across property types shows that the effect is driven by urban dwellings, with no impact in rural ones. Our findings suggest that buyers take into consideration the lower costs of owning the house which are reflected in a market price increase with the net present value of the tax reduction.

**9:00am - 10:30am**

**Room A07, Main building**

### **E15: Local Taxation and Tax Reform**

#### **The Efficiency and Distributive Effects of Local Taxes: Evidence from Italian Municipalities**

**Enrico Rubolino**

University of Essex

Different levels of tax progressivity between fiscal jurisdictions might trigger a host of taxpayers' behavioral responses intended to minimize the tax burden. This paper uses tax returns data on the full sample of Italian municipalities to study the effect of local income tax policy on taxable income and its distribution.

Exploiting a reform that granted municipalities the authority to switch from a flat to a progressive local tax scheme on personal income and using a linear matching Difference-in-Differences estimator, I find a significant negative effect of tax progressivity on both taxable income and inequality. The response appears to be mostly concentrated among taxpayers in the top percentile of the pre-tax income distribution. In addition, I show that the main findings are consistent with the notion of internal mobility and cross-municipality income shifting to minimize the tax liability.

### Distributional Implications of Municipal Property Tax

**Lars-Erik Borge, Ole Henning Nyhus**

Norwegian University of Science and Technology, Norway

This paper investigates the distributional effects of municipal property tax in a sample of Norwegian municipalities. The distributional effects are assessed by calculating a Suits-index for each municipality. The property tax comes out as regressive in five municipalities, as roughly proportional in three municipalities, and as progressive in one municipality. In most municipalities, the distributional implications for different cohorts do not differ from total tax distributional implications. We investigate the impacts of alternative tax designs and show that increased basic deduction makes the property tax less regressive, and also that distributional concerns may be handled by differentiated tax rates rather than by a basic deduction. A tax reform where the current wealth tax is replaced by an extended property tax has been under debate in Norway. We show that such a reform may have adverse distributional implications with large gains for the richest households.

**9:00am - 10:30am IIPF Board of Management Meeting II (for Board only)**

Room A32, Main building

**10:30am - 11:00am Coffee Break**

**11:00am - 12:30pm F01: Effects of Tax Audits**

Room B1096, Pinni B building

**11:00am - 11:30am**

### Firms Response to Tax Enforcement through Audits

**Claudio A. Agostini<sup>1</sup>, Juan Pablo Atal<sup>2</sup>, Andrea Repetto<sup>1</sup>**

<sup>1</sup>Universidad Adolfo Ibañez, Chile; <sup>2</sup>University of Pennsylvania

Understanding tax non-compliance and the effect of different enforcement strategies is relevant for improving the efficiency and efficacy of tax policy. Using administrative data provided by Chile's tax authority we analyze the dynamic effects of real-world tax audits for the universe of firms. The results show that audits have significant impacts on the corporate income tax base and sales of audited firms. The effects are mostly concentrated among micro firms and last up to one year after the audit. We exploit the rich panel dataset to alleviate concerns about non-random audits

 [Agostini-Firms Response to Tax Enforcement through Audits-107.pdf](#)

**11:30am - 12:00pm**

### Tax Audits as Scarecrows. Evidence from a Large-Scale Field Experiment

**Marcelo Luis Bergolo<sup>1</sup>, Rodrigo Ceni<sup>1</sup>, Guillermo Cruces<sup>2</sup>, Matias Giacobasso<sup>3</sup>, Ricardo Perez-Truglia<sup>3</sup>**

<sup>1</sup>IECON-UDELAR, Uruguay; <sup>2</sup>CEDLAS, Argentina; <sup>3</sup>UCLA, United States

According to the canonical economic model, firms evade taxes by making a trade-off between a lower tax burden and higher expected penalties. However, there is still no consensus about whether real-world firms operate in this rational way. We conducted a large-scale field experiment in which we provided firms with exogenous signals about key inputs for their evasion decisions, such as audit probabilities and penalty rates. We measure the effect of these signals on their subsequent perceptions about the auditing process, based on survey data, as well as on the actual taxes paid, according to administrative data. We find that firms do increase their tax compliance in response to information about audits. However, the patterns in these responses are inconsistent with utility maximization. The evidence suggests that audits can be a significant deterrent for tax evaders even though they would be perceived as harmless by a rational optimizer.

 [Bergolo-Tax Audits as Scarecrows Evidence from a Large-Scale Field Experiment-270.pdf](#)

**12:00pm - 12:30pm**

### The Dynamic Effect Of Tax Audits

**Arun Advani<sup>1,2</sup>, Jonathan Shaw<sup>2</sup>, William Elming<sup>2</sup>**

<sup>1</sup>University of Warwick, United Kingdom; <sup>2</sup>IFS, United Kingdom

We study how and why audits impact reported tax in the years after an audit – the dynamic effect – for individual income taxpayers. We exploit data from a random audit program covering almost 35,000 income tax self assessment returns in the UK. We show that audits raise reported tax liabilities for at least five years after audit, with the magnitude of the impact declining over time. In total this raises an additional £1,230 per audited individual in the five years after audit, 1.5 times the direct revenue raised from the audit. The magnitude of the initial impact is lower for income components which are third party reported, and the impact declines more quickly for components that are more volatile. We develop a model to allow us to distinguish different potential mechanisms, and show our findings can only be explained by audits providing improved information to the tax authority.

 [Advani-The Dynamic Effect Of Tax Audits-132.pdf](#)

11:00am - 12:30pm **F02: Optimizing over Life and Across Generations**

Room B3109, Pinni B building

11:00am - 11:30am

### Capital Tax Competition and Public Education

**Weizhen Hu**

Nagoya University, Japan

This paper investigates the effects of a coordinated capital tax reform across countries in an overlapping generations economy. We show that a coordinated tax increase alleviates the fiscal externality brought by tax competition, but affects human capital accumulation negatively. So each country should increase its wage tax rate to expand its domestic public education scale as a response. However, it still remains an ambiguous effect on social welfare, which challenges the general notion of "an coordinated increase in capital tax improve welfare".

 [Hu-Capital Tax Competition and Public Education-180.pdf](#)

11:30am - 12:00pm

### Optimal age-dependent Unemployment Insurance

**Sijmen Duineveld<sup>1</sup>, Jim Been<sup>2,3</sup>**

<sup>1</sup>University of Augsburg, Germany; <sup>2</sup>Leiden University, Netherlands; <sup>3</sup>Netspar, Netherlands

We use a life-cycle model with search effort and wealth accumulation to calculate optimal UI benefits, where we allow for an age-dependent replacement rate. We show that the optimal replacement rate is high for young people, but falls sharply with age. Varying the replacement rate over the life-cycle results in a welfare gain of about 5 to 15% of the Net Present Value of UI contributions compared to a system with an optimal constant replacement rate. The model is calibrated more extensively than is standard in the literature. The additional measures which are calibrated for are the elasticity of unemployment duration with respect to the level of unemployment benefits, the average consumption drop when agents become unemployed, and the unemployed duration with a linear trend in age.

 [Duineveld-Optimal age-dependent Unemployment Insurance-354.pdf](#)

12:00pm - 12:30pm

### Incomplete Annuity Markets and Capital Accumulation

**Shantanu Bagchi<sup>1</sup>, James Feigenbaum<sup>2</sup>**

<sup>1</sup>Towson University, United States of America; <sup>2</sup>Utah State University, United States of America

We examine how incomplete annuity markets affect overall capital stock using a two-period overlapping generations model. Our findings indicate that the overall effect is ambiguous, because there are two competing mechanisms at work. On the one hand, households' desire for to smooth consumption between the two periods may either increase or reduce saving. On the other hand, the accidental bequest originating from the assets of the deceased always increases saving. We find that when the elasticity of intertemporal substitution is low so households have a strong preference to smooth consumption, these two effects work in the same direction and the capital stock increases when annuity markets are missing. However, when the intertemporal elasticity is high, these two effects work in opposite directions and the effect of annuity markets on the capital stock is ambiguous.

 [Bagchi-Incomplete Annuity Markets and Capital Accumulation-477.pdf](#)

11:00am - 12:30pm **F03: Tax Enforcement in Developing Countries**

Room B3110, Pinni B building

11:00am - 11:30am

### The Quality of Tax Administration and Firm Performance: Evidence from Developing Countries

**Florian Misch<sup>1</sup>, Duncan Cleary<sup>2</sup>, Era Dabla-Norris<sup>1</sup>, Munawer Khwaja<sup>1</sup>**

<sup>1</sup>IMF, United States of America; <sup>2</sup>Irish Tax and Customs, Ireland

Tax compliance costs tend to be disproportionately higher for small and young businesses. This paper examines how the quality of tax administration affects firm performance for a large sample of firms in emerging market and developing economies. We construct a novel, internationally comparable, and multidimensional index of tax administration quality (the TAQI) using information from the Tax Administration Diagnostic Assessment Tool. We show that better tax administration attenuates the productivity gap of small and young firms relative to larger and older firms, a result that is robust to controlling for other aspects of tax policy and of economic governance, alternative definitions of small and young firms, and measures of the quality of tax administration.

 [Misch-The Quality of Tax Administration and Firm Performance-593.pdf](#)

11:30am - 12:00pm

### Income Shifting and Tax Evasion: Evidence from an Uruguayan Tax Reform

**Dirk Foremny<sup>1</sup>, Leonel Muinelo Gallo<sup>2</sup>, Javier Vázquez-Grenno<sup>3</sup>**

<sup>1</sup>Universitat de Barcelona / I.E.B., Spain; <sup>2</sup>Instituto de Economía - Universidad de la República;

<sup>3</sup>Universitat de Barcelona / I.E.B., Spain

This paper provides novel empirical evidence on intertemporal income shifting as a consequence of a large tax reform in Uruguay. We exploit VAT and income tax returns at the individual level. We observe this information for the universe of individuals that declare activity as liberal professionals during the years

around the reform. Using a difference-in-difference approach, we document large shifting responses of personal business income in the period before the reform was implemented. After controlling for fixed effects, we find that on average an amount of 35 thousand Uruguayan pesos (1450 US\$) or approximately 13% of income is shifted in order to receive a beneficial fiscal treatment. This amount increases up to 23% for the top of the income distribution. Furthermore, we show that lawyers and notaries drive results as the policy change was more salient to this group of professionals.

 [Foremny-Income Shifting and Tax Evasion-476.pdf](#)

**12:00pm - 12:30pm**

### **Firms' (mis)reporting under a minimum tax: Evidence from Guatemalan corporate tax returns**

**Luis Alejos**

University of Michigan, United States of America

This paper focuses on the minimum income tax faced by firms in Guatemala. In this regime, firms pay the largest liability between a tax on profits and a tax on turnover. Moreover, firms can be exempted from this scheme depending on their reported gross margin, a statistic based on the firms' cost structure. Because of this complex framework, firms face a tax liability function where two kinks and a firm-specific notch coexist, creating differentiated misreporting incentives. The paper exploits this variation to identify firm behavior consistent with evasion strategies, using bunching analysis. The empirical evidence suggests strong firm responses to the minimum tax and no loss carryforward kinks, as well as to the notch created by the minimum tax exemption rule. A lower-bound for the evasion rate is estimated at 58% of actual profits in the absence of the minimum tax scheme.

 [Alejos-Firms' \(mis\)reporting under a minimum tax-547.pdf](#)

**11:00am - 12:30pm**  
**Room B4113, Pinni B**  
**building**

## **F04: Disability Insurance**

**11:00am - 11:30am**

### **The Impact of Employer Liabilities for Disability Insurance on Hiring**

**Salla Simola<sup>1</sup>, Amelia Hawkins<sup>2</sup>**

<sup>1</sup>Aalto University, Finland; <sup>2</sup>University of Michigan, USA

Making employers liable for the costs of employees' disability insurance (DI) claims incentivizes employers to accommodate disabilities at workplace but also increases the expected relative cost of hiring a disabled worker over a healthy one. In this study, we examine how employer liabilities in DI affect firm behaviour in the context of Finland, with a focus on their impact on hiring. We take advantage of a reform that differentially increased coinsurance rates in DI for large and small employers. First, we construct a risk score from a set of worker characteristics observable to the recruiter (and the researcher) to measure individuals' likelihood to enter disability receipt. Then, we study changes in the composition of new hires in terms of risk correlates and the risk score in a difference in differences setting to learn about firms' responses to the policy.

 [Simola-The Impact of Employer Liabilities for Disability Insurance-567.pdf](#)

**11:30am - 12:00pm**

### **Measuring Work Disability in the U.S.: Estimates from a Structural Latent Variable Model**

**Fung Mey Huang<sup>2</sup>, Robert Haveman<sup>1</sup>, Barbara Wolfe<sup>1</sup>**

<sup>1</sup>University of Wisconsin-Madison,; <sup>2</sup>National Taiwan University

To meet the absence of an accurate measure of 'true' work disability, we employ a structural-equation model, which treats an individual's "true" disability as a latent variable which is related to: 1) the capability demands of employers and 2) the abilities and physical conditions of workers. To empirically capture the worker perspective, we use the 2008 panel of the Survey of Income and Program Participation (SIPP). To depict the demand side of the market, we use data from the Occupational Information Network (O\*NET) database. In modelling the effect of disability on labor force participation, our "true" work disability shows a substantially larger effect on labor force participation behavior than an alternative using an objective disability index without labor market information and shows a statistically smaller effect compared to estimates using self-reported work limitation (or health) as exogenous.

 [Huang-Measuring Work Disability in the US-266.pdf](#)

**12:00pm - 12:30pm**

### **The Effect of Employer Liabilities in Disability and Unemployment Insurance on Job Exits**

**Tomi Kyyrä<sup>1,2</sup>, Juha Tuomala<sup>1</sup>**

<sup>1</sup>VATT Institute for Economic Research, Finland; <sup>2</sup>IZA, Germany

In Finland, large employers are partially liable for the costs of disability and unemployment benefits received by their former employees. We study how the risk of such costs affects exits from employment to disability and unemployment benefits. To identify causal effects we exploit a pension reform that extended the coverage of the employer liabilities to a new group of blue-collar workers. We find that (1) experience rating in disability insurance reduces the disability inflow and encourages vocational rehabilitation, and (2) employer liabilities in unemployment insurance reduce excess layoffs for older workers who can qualify for unemployment benefits up until an old-age pension.

 [Kyyrä-The Effect of Employer Liabilities in Disability and Unemployment Insurance-391.pdf](#)

**11:00am - 12:30pm**

## **F05: Environmental Regulation**



Room B4115, Pinni B  
building


11:00am - 11:30am

### Asymmetric Innovation Agreements under Environmental Regulation

**Naoto Aoyama<sup>1</sup>, Emilson Silva<sup>2</sup>**

<sup>1</sup>Aomori Public University; <sup>2</sup>University of Alberta

In a domestic market, a duopoly produces a homogeneous final good, pollution, pollution abatement and R&D. We consider the potential implementation of three innovation agreements: cooperative research joint venture (RJV), non-cooperative RJV and licensing. We show that, for the domestic firm, the cooperative RJV dominates and licensing is the least desirable alternative. Although licensing is dominant for the foreign firm, it is not implementable. Both RJVs are implementable. While the non-cooperative RJV is more likely the greater the degrees of asymmetry (in terms of efficiency and R&D spillover rates) between the firms, the cooperative RJV is more likely the lower the degrees of asymmetry. Implementation of both types of RJVs improve the competitiveness of the domestic firm and welfare. A subsidy policy that induces the foreign firm to accept a feasible cooperative RJV when it strictly prefers a feasible non-cooperative RJV is always welfare improving.

 [Aoyama-Asymmetric Innovation Agreements under Environmental Regulation-105.pdf](#)

11:30am - 12:00pm

### Environmental regulation and innovation in renewable energy technologies: Does the policy instrument matter?

**Wilhelm Althammer, Henning Diederich, Erik Hille**

HHL Leipzig Graduate School of Management, Germany

We examine how different renewable energy support policies affect innovation in solar and wind power technologies. The analysis is conducted using policy data and patent data for large sample of countries and territories between 1990 and 2011. The policy data allows distinguishing two dimensions of regulation, design and intensity, and their effects on innovation. The patent data is based on the new Y02E system and covers the recent years with strong increases in patent activity. The results show that, first, more intense portfolios of renewable energy support policies increase patenting in solar- and wind-power-related technologies. Second, this inducement effect is strongest for public RD&D programs, greenhouse gas trading systems, and fiscal incentives. In contrast to previous studies, this paper finds a positive impact of feed-in tariffs and does not find technology-specific differences in the effectiveness of policy instruments.

 [Althammer-Environmental regulation and innovation in renewable energy technologies-116.pdf](#)


12:00pm - 12:30pm

### The Effect of Environmental Taxes on Car Prices, Purchases and Mileage

**Naomi Elisabeth Feldman<sup>1</sup>, David Katz<sup>2</sup>, Laura Kawano<sup>3</sup>**

<sup>1</sup>Federal Reserve Board, United States of America; <sup>2</sup>University of Haifa, Israel; <sup>3</sup>University of Michigan, United States of America

In an effort to reduce overall emissions of carbon and other pollutants, Israel implemented a major tax reform in 2009 intended to encourage consumption of less polluting automobiles. Under the reform, import taxes on vehicles are now based on the particular vehicle's score on a pollution index, with less polluting cars taxes proportionately less and more polluting cars taxed proportionately higher. Using databases covering all car sales in Israel since 2000, along with their pollution ranking and yearly odometer readings, we find that the green tax did cause a significant shift in car purchases towards less polluting ones. However, some of the environmental gains appear to be offset by the facts that the reform brought about an increase in the overall amount of cars on the road and that newer, albeit more efficient cars were, on average, driven more than older cars.

 [Feldman-The Effect of Environmental Taxes on Car Prices, Purchases and Mileage-597.pdf](#)

11:00am - 12:30pm

Room B4116, Pinni B  
building

## F06: Property Taxation

11:00am - 11:30am

### Property Tax Limitations and Exposure to Housing Market Risk

**Sebastien Bradley<sup>1</sup>, Nathan Seegert<sup>2</sup>**

<sup>1</sup>Drexel University, United States of America; <sup>2</sup>University of Utah, United States of America

Despite being intended to promote stable property tax liabilities and local revenues, asymmetries in the determination of taxable values due to property tax and assessment limitations may exacerbate households' short-term exposure to economic downturns. Rising taxable values and tax liabilities during times of declining market values may be perceived by liquidity-constrained or inattentive households as a negative income shock and thereby potentially trigger mortgage default. Viewed through the lens of Domar and Musgrave (1944), the disproportionate shifting of downside risk onto homeowners may also dampen housing investment and economic growth. These policies thus have important implications for the ability of governments to provide public services relative to households' ability to afford their homes and invest in housing.

We test these propositions using property-level data for homes in state border counties throughout the continental U.S. (2005-2015) and exploit state- and year- specific variation in property tax limitations using a border-discontinuity design.

 [Bradley-Property Tax Limitations and Exposure to Housing Market Risk-434.pdf](#)

11:30am - 12:00pm

**A Theoretical Model Of Willingness To Pay The Property Tax: Simulation Of Exemption Schemes In US And China Contexts****Yilin Hou<sup>1</sup>, Ping Zhang<sup>2</sup>**<sup>1</sup>Syracuse University, USA; <sup>2</sup>Fudan University, China

This paper constructs a theoretical model of willingness to pay the property tax (WTP) and designs indicators to measure WTP. We apply these to two country contexts: one has not levied the tax (China), the other has used the tax for a long time (USA). For China, we use data from the China Family Panel Studies 2010 for multi-dimensional comparisons. For USA, we use the American Housing Survey series and 2000-2017 sales data in New York State for analysis. We identify three key findings. WTP property tax shows wide variation between regions and household types, confirming the localization of the property tax. Under different exemption proposals, the fiscal effects of the tax differ, as is the consistency between WTP and ATP. Finally, there is no theoretical support or empirical evidence that exemptions improve WTP, because generous exemptions do not necessarily reduce citizen resistance to the implementation of the property tax.

 [Hou-A Theoretical Model Of Willingness To Pay The Property Tax-201.pdf](#)

**12:00pm - 12:30pm****Political Economy of Parcel Tax in California School Districts****Soomi Lee**

University of La Verne, United States of America

This paper examines political and economic conditions for parcel tax adoption in California school districts to supplement public school funding. A parcel tax is a regressive tax on a unit of real property that requires two-thirds supermajority vote in a local referendum. Despite its growing role as a funding source for public schools, how local conditions affect adoption has been poorly understood. Unlike previous studies that emphasize income differences across school districts, this paper argues that distribution of home prices within a district is one of the determining factors for parcel tax adoption, due to the regressivity and the resulting differentials of property tax rates. Using the Heckman selection models with California school district level data, I find that a large gap in home values within a district significantly reduces the likelihood of parcel tax adoption.

 [Lee-Political Economy of Parcel Tax in California School Districts-514.pdf](#)

**11:00am - 12:30pm****Room B4117, Pinni B building****F07: Welfare Regimes****11:00am - 11:30am****Welfare Systems and Their Complexity****Vito Tanzi**

Italy

The paper discusses the interventions by governments during the last century, aimed at providing protection to citizens against some risks that they may encounter during their lives. It discusses and distinguishes "universal" from "means-tested" programs. It argues that "means-tested programs" require more information on the citizens and tend to become more complex with the passage of time. They also tend to be accompanied by more complex tax systems. The paper calls for giving more importance to the objective of simplicity in choosing economic policies. It concludes that universal programs require higher public spending and higher tax levels, but require less information, lead to less significant poverty traps and are accompanied by less complex tax systems. "Means-tested" programs are more likely to be complex even though they may be less costly in general. Some of their characteristics leads to problems that stimulate populism.

**11:30am - 12:00pm****The Importance of Income-Tested Benefits in Good Times and Bad: Lessons from EU Countries****Chrysa Leventi<sup>1</sup>, Olga Rastrigina<sup>2</sup>, Holly Sutherland<sup>1</sup>**<sup>1</sup>University of Essex, United Kingdom; <sup>2</sup>Organisation for Economic Co-operation and Development (OECD)

Policy over the past years has seen a gradual movement away from universal benefits towards the provision of more targeted benefit schemes. This paper aims to compare the effectiveness of income-tested benefits at different points in the economic cycle. This objective is considered in terms of coverage of households with incomes falling below various thresholds and importance in terms of the fraction of resources that these benefits provide. Using microsimulation methods and household micro-data, we compare the situation in 2009 with that in 2014 (or 2013) for fifteen EU Member States experiencing differing economic conditions over the period in question. Additional data adjustments are performed in order to account for changes in the labour market. We attempt to indicate the sensitivity of the estimated policy effectiveness indicators to these particular changes. We conclude by discussing the methodological pitfalls and main findings of this research.

**12:00pm - 12:30pm****Assessing Targeting Efficiency of the Social Cash Transfer in Zambia: a Tax-Benefit Microsimulation Approach****Kyle McNabb, Pia Andrea Rattenhuber**

UNU-WIDER, Finland

Whilst there is agreement that the expansion of social protection in developing countries is key for reducing poverty and inequality, the design for delivery of social protection programmes is contested. Targeting mechanisms and specifically proxy means tests (PMT) are common tools for allocating social

benefits. We assess the targeting efficiency of the Zambian Social Cash Transfer (SCT). Based on MicroZAMOD, a novel tax-benefit microsimulation model for Zambia, we decompose the SCT's targeting method step by step to assess the targeting efficiency of the different conditions. We find that the PMT in isolation—thus without categorical elements—performs much better in reaching the extremely poor in terms of targeting errors than the current combination of categorical and PMT targeting. Compared to the current system and a UBI, our simulations suggest that a variant of the SCT targeted to older persons performs particularly favourably in reducing poverty rates, for a lesser cost.

**11:00am - 12:30pm**  
**Room D13, Main**  
**building**

**F08: Spillover Effects**

**11:00am - 11:30am**

**Booming industry, wage spillovers and Dutch disease: Norway reported fit?**

**Jan Morten Dyrstad<sup>1</sup>, Ulf Johansen<sup>1,2</sup>, Lars Vik<sup>2</sup>**

<sup>1</sup>Norwegian University of Science and Technology, Norway; <sup>2</sup>SINTEF

Wage spillovers from the Norwegian oil and gas (OG) industry to other sectors of the economy is identified by defining labor sub-markets along spatial and occupational dimensions, and by taking large changes of OG investments into account. We use micro data covering all individual workers in Norway in the period 2008–13, more than 11 million observations. The wage distribution related to the OG industry seems persistent but spillovers are smaller as compared to those from the OG establishing period 1970–82. Three explanations to our results seem important: Policies of coordinated wage setting, immigration and use of micro data. Moreover, consistent with the institutionalized system of wage formation, the channel of spillovers is industry affiliation and not education. Traded goods industry is affected but not to such an extent as non-traded industries.

 [Dyrstad-Booming industry, wage spillovers and Dutch disease-226.pdf](#)

**11:30am - 12:00pm**

**International Technology Sourcing and Knowledge Spillovers: Evidence from OECD Countries**

**Estelle P Dauchy<sup>1</sup>, Sophia Chen<sup>2</sup>**

<sup>1</sup>Campaign for Tobacco Free Kids, United States of America; <sup>2</sup>International Monetary Fund, USA

How much do firms benefit from foreign knowledge and through what channel? We construct a global network of innovations using more than 1.5 million patents granted to firms in OECD countries. We estimate the size of knowledge spillovers through international technology sourcing. We find that firms with a large share of innovations abroad benefit disproportionately more from foreign knowledge. The strength of knowledge spillovers depends on the direction of technology sourcing. It is much stronger from technologically more-advanced countries to less-advanced countries than the other way around. Furthermore, knowledge externality is larger for technologically less-advanced countries.

 [Dauchy-International Technology Sourcing and Knowledge Spillovers-426.pdf](#)

**12:00pm - 12:30pm**

**State Incentive Spending and Large Establishment Spillovers**

**Cailin Slattery**

University of Virginia, United States of America

State governments spend over \$30 billion a year to attract large establishments to their regions. The efficiency of such spending depends in part on the spillover effect of large establishments: do they attract smaller establishments and create indirect jobs? In this paper I quantify the effect of large establishments by estimating a model of small establishment location choice. I collect data from state budget documents and tax expenditure reports to document trends in state spending for large establishments, and exploit state incentive spending as an instrumental variable for large establishment location. I test whether governments are targeting establishments that will generate the largest positive externalities for the region by comparing industry-level spillover parameters with industry-level spending data. I find that states allocate 42% of their discretionary spending to industries with zero or negative spillovers, suggesting that a state could boost employment and revenue by reallocating subsidy spending across industries.

 [Slattery-State Incentive Spending and Large Establishment Spillovers-461.pdf](#)

**11:00am - 12:30pm**  
**Room A1081, Pinni A**  
**building**

**F09: Pensions**

**11:00am - 11:30am**

**The Introduction of Social Pensions and Elderly Mortality: Evidence 1870-1939**

**Philipp Jäger**

RWI-Leibniz Institute for economic research, Germany

The strong association between income and mortality raises the question whether more generous social security systems could improve poor people's health outcomes. Thus, in this paper, I analyze whether a major social security innovation, the introduction of social pensions targeted at poor elderly people in the late 19th–early 20th century, has reduced mortality rates of senior citizens. Therefore, I use a cross-country dataset spanning from 1870 to 1939 consisting of 13 countries of which 9 eventually implemented social pensions before World War II. Applying a differences-in-differences-in-differences and a regression-discontinuity design, I find no evidence for a decline in elderly mortality. This result is likely driven by a fall in elderly labor force participation, even though the fall seems too small to fully explain the absence of a positive health effect. Thus, I conclude that a (moderate) positive income shock lat-in-life did not translate into lower mortality in the sample period.

 [Jäger-The Introduction of Social Pensions and Elderly Mortality-558.pdf](#)

11:30am - 12:00pm

### **A role for universal pension? Simulating universal pensions in Ecuador, Ghana, Tanzania and South Africa**

**Pia Andrea Rattenhuber<sup>1</sup>, Maria Jouste<sup>1,2</sup>**

<sup>1</sup>UNU-WIDER, Finland; <sup>2</sup>University of Turku, Finland

We use four novel, cross-country comparable tax-benefit microsimulation models for Ecuador, Ghana, Tanzania and South Africa to evaluate ex ante the expansion of a universal old-age pension in a static setting. Universal pensions would significantly reduce poverty and inequality in settings where no means-tested old-age pensions exist (such as in Ghana and Tanzania). If means-tested old-age pensions exist and shall be maintained, universal pensions as a top up scheme only make a difference for the income distribution if the existing schemes do not reach the entire vulnerable population such as in Ecuador. Costs for the proposed schemes are substantial.

 [Rattenhuber-A role for universal pension Simulating universal pensions-188.pdf](#)

12:00pm - 12:30pm

### **Program evaluation and ethnic differences: the Pension 65 program in Peru**

**Javier Olivera<sup>1</sup>, Erik Schokkaert<sup>2</sup>, Koen Decancq<sup>3</sup>**

<sup>1</sup>Luxembourg Institute of Socio-Economic Research (LISER), Luxembourg; <sup>2</sup>KU Leuven; <sup>3</sup>University of Antwerp

We show that the introduction of a non-contributory pension program (Pension 65) in Peru had remarkably different effects for the three main ethnic groups, i.e., Mestizo, Quechua, and Aymara. The Aymara have experienced larger increases in health, respect, and life satisfaction compared to the other groups. We argue that preference heterogeneity may explain these differences. Using a panel life satisfaction regression, we find indeed evidence for some preference heterogeneity between the Aymara and the other ethnic groups that is consistent with the observed differences. Finally, we turn to the question how the pension program can be evaluated in a robust manner, while respecting the preference heterogeneity between the ethnic groups. We propose to use the natural criterion that a program benefits a recipient if she is lifted to a higher indifference curve. Our proposed robust criterion can be useful to evaluate programs in all cases where preference differences matter.

 [Olivera-Program evaluation and ethnic differences-339.pdf](#)

11:00am - 12:30pm

Room Paavo Koli,  
Pinni A building

## **F10: Gender Roles and Female Empowerment**

11:00am - 11:30am

### **Women leaving the playpen: The emancipating role of female suffrage**

**Michaela Slotwinski, Alois Stutzer**

University of Basel, Switzerland

The role of women in Western societies changed dramatically in the 20th century. We study how political empowerment affected women's emancipation as reflected in their life choices. The late and staggered introduction of female suffrage in Swiss states allows us to exploit the cross sectional variation in the age women experienced enfranchisement to estimate the difference in life choices between women who were socialized in a world where women had a formal say in politics and those who were mainly socialized before. Our empirical findings document that political empowerment strongly increased female labor force participation, weakened marital bonds and motivated human capital investment. Moreover, being socialized with female suffrage increased long-term voting participation and perceptions of control. Our evidence suggest that changes in formal political institutions hold the power to change gender norms within one to two generations.

 [Slotwinski-Women leaving the playpen-366.pdf](#)

11:30am - 12:00pm

### **How the Provision of Childcare Affects Attitudes towards Maternal Employment**

**Anja Roth**

University of Basel, Switzerland

Do institutions affect attitudes of individuals? To tackle this question, I consider the availability of childcare services and their impact on voters' support of policies encouraging maternal employment. The inherent endogeneity between institutions and attitudes is addressed by exploiting cantonal variation in the regulations of municipal lunch- and after-school care supply in Switzerland. This variation along with federal ballots on policies targeting maternal employment allow the application of a difference-in-differences approach. My results indicate that provision of lunch tables and after-school care increase the support of additional policies towards the encouragement of maternal labor supply once the tax increase due to the expansion of public goods is considered.

 [Roth-How the Provision of Childcare Affects Attitudes towards Maternal Employment-402.pdf](#)

12:00pm - 12:30pm

### **All the Single Ladies: Job Promotions and the Durability of Marriage**

**Olle Folke<sup>1,2</sup>, Johanna Rickne<sup>2,1</sup>**

<sup>1</sup>Uppsala University, Sweden; <sup>2</sup>Stockholm University, Sweden

We investigate how promotions to top jobs affect the probability of divorce. In the first half of the paper we compare the relationship trajectories of winning and losing candidates for mayor and parliamentarian. We find that a promotion doubles the baseline probability of divorce for women, but not for men. This result is

robust in a sample of narrow elections in which promotions are quasi-randomly assigned between job candidates. Similar evidence is also found for promotions to CEO in private firms. The second half of the paper uncovers a possible explanation for this finding by comparing the characteristics of couples that divorce and those that do not. We find that divorces are concentrated in couples that adhered to traditional gender roles in the early phase of the relationship, while women in more gender-equal couples are unaffected.

 [Folke-All the Single Ladies-460.pdf](#)

**11:00am - 12:30pm**  
**Room D14, Main building**

## **F11: Earning Dynamics, Fiscal Reactions and Fiscal Surveillance**

**11:00am - 11:30am**

### **Dynamic Scoring of Tax Reforms in Real Time**

**Salvador Barrios<sup>1</sup>, Adriana Reut<sup>2</sup>, Sara Riscado<sup>1</sup>, Wouter van der Wielen<sup>1</sup>**

<sup>1</sup>European Commission, Joint Research Centre (JRC); <sup>2</sup>European Commission, Economic and Financial Affairs (ECFIN)

In this paper, we propose a novel approach for the ex-ante assessment of tax reforms accounting for economy-wide effects and labour market adjustments, i.e. the so-called dynamic scoring of tax reforms. We combine a microsimulation model for selected European countries with country-specific VAR models, and compare our estimates with the real-time assessment of tax reforms conducted by the EU Member States as well as with ex-post realisations. In particular, exploiting a unique database covering anticipated and unanticipated tax reforms in the EU, we provide the first narrative estimates of fiscal multipliers for personal income taxes in the EU. Our results suggest that on average personal income tax cuts resulted in medium-term increases in output and employment; however, the second-round revenue impact is found to be small relative to the first-round microsimulation results.

 [Barrios-Dynamic Scoring of Tax Reforms in Real Time-239.pdf](#)

**11:30am - 12:00pm**


### **Unemployment expenditure and the Cyclically Adjusted Budget Balance (CABB)**

**Francesco DAmuri<sup>1</sup>, Salvatore Lattanzio<sup>2</sup>**

<sup>1</sup>Bank of Italy, Italy; <sup>2</sup>University of Cambridge

The article focuses on unemployment expenditure and the Cyclical Adjustment of the Budget Balance, one of the cornerstones of the EU fiscal surveillance.

Elasticities of the Budget Balance to the Output Gap show substantial cross-country dispersion; most of this variation is due to expenditure elasticities. Such elasticities are estimated based on the elasticities of unemployment expenditures to the output gap only (thus assuming other social expenditures are acyclical). Each of the parameters used to calculate expenditures' elasticity is estimated at ten years intervals. Variations in the way business cycle impacts on expenditure thus translate very slowly into updated elasticities. We show this point using simulations on reforms that have changed this elasticity in a given year; we also provide a replication exercise and an analysis of the stability of parameter estimates.

 [DAmuri-Unemployment expenditure and the Cyclically Adjusted Budget Balance-501.pdf](#)

**12:00pm - 12:30pm**

### **Labor market changes and earnings dynamics in Germany: 1960 - 2015**

**Holger Lüthen<sup>1,2</sup>, Timm Bönke<sup>2</sup>, Matthias Giesecke<sup>3</sup>**

<sup>1</sup>DIW Berlin, Germany; <sup>2</sup>Freie Universität Berlin, Germany; <sup>3</sup>RWI Essen

Using administrative biography data on earnings from 1960 through 2015, this paper provides novel evidence on earnings dynamics throughout various transitions in the German labor market – inter alia strong deregulation, deunionization and a shift in employment from the industrial to the service sector. We analyze the long-term evolution of permanent inequality and transitory earnings insecurity across generations. We find that young workers face an increasing and substantial amount of insecurity, implying that it becomes more difficult to obtain a stable career track. For older workers, substantial increases in permanent inequality are the dominant driver of divergence. Separate analysis for low and high earners additionally reveals that low earners face insecurity throughout their complete working life-cycle, whereas high earners' obtain a stable career path after age 30 and mainly face permanent differences. Last, we link our results to cohort-specific labor market data to identify a clear relationship.

 [Lüthen-Labor market changes and earnings dynamics in Germany-524.pdf](#)

**11:00am - 12:30pm**  
**Room D11, Main building**

## **F12: Optimal Taxation II**

**11:00am - 11:30am**


### **Equity and efficiency in 25 years of tax-benefit reforms in Belgium**

**André Decoster<sup>1</sup>, Sergio Perelman<sup>2</sup>, Dieter Vandelanoot<sup>4</sup>, Toon Vanheukelom<sup>1</sup>, Gerlinde Verbist<sup>3</sup>**

<sup>1</sup>KU Leuven, Belgium; <sup>2</sup>CREPP, HEC-Ecole de Gestion, Université de Liège; <sup>3</sup>Herman Deleeck Centre for Social Policy, University of Antwerp; <sup>4</sup>Federal Planning Bureau Belgium

Belgium has seen major changes in its tax-benefit system over the past quarter of a century. These changes have, to a large extent, co-determined the evolution of disposable incomes of Belgian households on the one hand, and their incentives to work on the other. In this paper we assess equity and efficiency aspects of changes in tax-benefit policies over the full course of 1992-2018. We hereby make use of the microsimulation model EUROMOD. The main finding of the paper is that changes in the tax-benefit system have to a large extent been pro-poor and redistribution has increased to some extent for

the entire population, and strongly for the labour market population. The extent of the observed effects however crucially depends on how the 'no policy change' counterfactual is defined: either as indexation with inflation only, or as indexation according to nominal wage growth.

 [Decoster-Equity and efficiency in 25 years of tax-benefit reforms in Belgium-443.pdf](#)

**11:30am - 12:00pm**

### **Marginal Cost of Public Funds: from the theory to the empirical application for the evaluation of the efficiency of the tax-benefit systems**

**Francesco Figari<sup>2</sup>, Luca Gandullia<sup>1</sup>, Emanuela Lezzi<sup>1</sup>**

<sup>1</sup>University of Genoa, Italy; <sup>2</sup>University of Insubria, Italy

We estimate the Marginal Cost of Public Funds (MCF) as an overall indicator of efficiency of tax-benefit systems and reforms. The novelty of our work is the calculation of the MCF indicator fully based on empirical micro data representative of the population. This indicator combines both changes in labour force participation and in hours-of-work labour conditioning on working with the incentives embodied in the tax benefit system at the intensive (effective marginal tax rates) and extensive margin (participation tax rates). Our results, related to the Italian case, show first the importance of taking into account the heterogeneity of the population with the women (both single or in couple) facing a more inefficient system compared to the men. Second, our micro-data based indicator shows the potential bias of MCF indicators based on stylised and hypothetical measures of work incentives.

 [Figari-Marginal Cost of Public Funds-379.pdf](#)

**12:00pm - 12:30pm**

### **How Should Capital Be Taxed? A Swedish Perspective**

**Spencer Bastani<sup>1</sup>, Daniel Waldenström<sup>2</sup>**

<sup>1</sup>Linneaus University, Sweden; <sup>2</sup>Paris School of Economics, France

This paper discusses the role of capital taxation in Western welfare states. We highlight the usefulness of capital and capital income taxes as part of an optimal tax system, but also emphasize the political dimension of tax policy by discussing different ways to achieve economically attractive and politically feasible taxation of capital. We describe capital in the economic distribution and discuss issues such as the connection between capital and intergenerational mobility. The study puts focus on the Swedish case, but the discussion is accessible and relevant for an international readership.

 [Bastani-How Should Capital Be Taxed A Swedish Perspective-230.pdf](#)

**11:00am - 12:30pm**  
**Room A07, Main building**

## **F13: Globalization and Emerging Markets**

**11:00am - 11:30am**

### **Population Aging and Cross-country Redistribution in Integrated Capital Markets**

**Thomas Davoine**

Institute for Advanced Studies (IHS), Austria

Population aging challenges the financing of social security systems, as the working age population declines. If capital markets are integrated, differences in population aging may lead to cross-country spillovers, as investors freely seek the best returns on capital and capital-labor ratios evolve differently. Using a multi-country OLG model covering 14 EU countries, I quantify spillovers and find that capital market integration leads to redistribution across countries over the long run. For instance, GDP/capita would on average be 2.9 %-points lower in Germany in each of the next 50 years if capital markets were perfectly integrated, compared to a closed economy; by contrast, GDP/capita would on average be 2.1 %-points higher in France, whose population ages slower than in Germany. I also show that pension reforms can change the cross-country redistribution patterns, some countries losing from capital market integration without the reform but winning with it.

 [Davoine-Population Aging and Cross-country Redistribution-135.pdf](#)

**11:30am - 12:00pm**

### **Contagion and Information Frictions in Emerging Markets: The role of joint signals**

**Besart Avdiu<sup>1</sup>, Tobias Gruhle<sup>2</sup>**

<sup>1</sup>Goethe University Frankfurt, Germany; <sup>2</sup>Johannes Gutenberg University of Mainz, Germany

We show that information frictions can explain financial contagion without correlated fundamentals and explain why emerging markets are more susceptible to contagion. Costly information may cause investors to group country signals, because such imprecise signals are cheaper. These joint signals then cause asset prices to comove, which can be observed as contagion. Due to lower demand for countryspecific information and lower risk weighted returns, it is likelier that investors group signals of emerging markets, thereby making them more prone to contagion. We find empirical evidence for our predictions using a novel data set on the number of joint news articles and exploit exogenous variation in news due to terrorism.

 [Avdiu-Contagion and Information Frictions in Emerging Markets-283.pdf](#)

**12:00pm - 12:30pm**

### **The Effects Of Globalisation And Ethnic Fractionalisation On Income Inequality And Redistribution**

**Regina Pleninger<sup>1</sup>, Jan-Egbert Sturm<sup>1,2</sup>**

<sup>1</sup>ETH Zurich, Switzerland; <sup>2</sup>CESifo Munich, Germany

The focus of this paper is to analyse the effects of globalisation on income inequality and redistribution. In particular, we analyse whether the effects differ for different levels of ethnic fractionalisation in a country. Furthermore, we employ the newly constructed KOF Globalisation Index that separates the initial index into de facto and de jure measures of globalisation. In the analysis, we include an interaction term between globalisation and ethnic fractionalisation to test for the dependency structure of these variables. The results confirm our hypothesis that the effect of globalisation on redistribution is dependent on the level of ethnic fractionalisation. Highly fractionalised countries redistribute on average less when confronted with increases in globalisation.

 [Pleninger-The Effects Of Globalisation And Ethnic Fractionalisation-448.pdf](#)

11:00am - 12:30pm

Room B3107, Pinni B building

**F14: Anti-terrorism and Arms Race**

11:00am - 11:30am

**Cyber Technology and the Arms Race**

**Vesa Lennart Kanniainen**

University of Helsinki, Finland

Cyber technology represents digital military capability with the purpose of causing damage to the military strength of a potential enemy. This paper introduces such technology into the theory of conflicts. The cost of war relative to the payoff from victory turns out to be crucial for the results on armament decisions. In the war game, two types of Nash equilibria both subject to warfare are possible depending on the cost of war. In a symmetric war game, hostile countries choose to invest an equal amount of resources in their militaries, while under a higher cost of war, increased armament arises. When cyber capabilities differ, both invest less than in the absence of cyber technology. In all cases, access to cyber technology makes wars with conventional weapons more likely.

 [Kanniainen-Cyber Technology and the Arms Race-359.pdf](#)

11:30am - 12:00pm

**Why Direct Counter-Terror (CT) Measures Only May Fail: An Analysis of Direct and Preventive CT Measures**

**Satya Das, Sajal Lahiri**

Southern Illinois University Carbondale, United States of America

We present a model of three-period game between a terrorist organization (Org) and a defending state (State), where the Org chooses aggregate terror input and the State chooses (a) the level of preemptive measures, and (b) the level of redressal of grievances of the Org's population. (a) and (b) are interpreted respectively as direct and preventive counter-terrorism (CT) measures. There is two-sided asymmetric information: the Org and the State do not fully know each other's preferences. A central result is an 'impossibility theorem' that the State cannot win the war on terror with preemptive measures only as long as the marginal cost of preemptive measures is increasing. Direct and preventive CT measures complement each other towards countering terrorism: they are not substitutes. The core model is extended to consider many extensions including Bayesian updating by the State.

 [Das-Why Direct Counter-Terror-126.pdf](#)

12:00pm - 12:30pm

**Terrorism And Anti-terrorist Government Actions: Hatred, Fear And The Media**

**Bruno Lode De Borger<sup>1</sup>, Amihai Glazer<sup>2</sup>**

<sup>1</sup>University of Antwerp; <sup>2</sup>University of California at Irvine

Abstract

We study the strategic interaction between a terrorist organization and the government, assuming that terrorists aim at reducing the utility of the targeted population by killing people and by creating fear and anxiety. We find the following results. First, anti-terrorist actions by the government will raise terrorist attacks if the terrorists' hatred is strongly increasing in the targeted victims' utility. Second, terrorists prefer attacking victims at places where they are likely to be happy. Third, media attention to terrorist activities leads the government not only to invest more in preventive measures but also in fear-reducing policies. Such media attention increases the equilibrium number of terrorist actions, unless the terrorists' hatred is strongly increasing in the targeted victims' utility.

 [De Borger-Terrorism And Anti-terrorist Government Actions-378.pdf](#)

11:00am - 12:30pm

F15

12:30pm - 1:30pm

Lunch

1:30pm - 3:30pm

Room B3107, Pinni B building

**G01: Income Risk, Inequality and Policy**

**The Joint Distribution of Wealth and Income Risk: Evidence from Bern**

**Matthias Krapf**

University of Basel, Switzerland

Using detailed tax data from the Swiss canton of Bern, I document new facts on the joint distribution of wealth and income risk, i.e. wealth, income and changes in wealth and income. First, a substantial share of taxpayers have negative net wealth. While wealth and income are positively correlated for positive net

wealth taxpayers, this correlation is negative for negative net wealth taxpayers, indicating that these include a disproportionate share of high-income investors. Second, these negative net wealth investors experience sharp increases in wealth and income in subsequent periods. Third, wealth risk is more dispersed than income risk. Fourth, I provide evidence that, among elderly individuals, high kurtosis of income risk may be positively correlated with wealth risk. I discuss implications for research on inequality and for public policy.

 [Krapf-The Joint Distribution of Wealth and Income Risk-122.pdf](#)

### Redistribution and Insurance in Welfare States around the World

**Charlotte Bartels<sup>1</sup>, Dirk Neumann<sup>2</sup>**

<sup>1</sup>German Institute for Economic Research, Germany; <sup>2</sup>OECD

This paper sheds light on the empirically prevalent mix of redistribution and insurance in different welfare states. Whereas redistribution across individuals in a one-year-period framework is an empirically intensely studied question, insurance, understood as the income-smoothing function of welfare states for individuals over time, is addressed to a much smaller extent. We exploit panel data for Australia, Germany, Korea, Switzerland, the UK and the US from the Cross-National Equivalent File (CNEF). Our results suggest that a substantial share of annual redistribution turns out to serve as individual insurance in a longer perspective, even for a few years. Supposedly highly redistributive welfare states like Germany provoke less redistribution between individuals in the long-run than the United Kingdom or the United States. First regression results show that the higher the share of elderly, the more important is income smoothing.

 [Bartels-Redistribution and Insurance in Welfare States around the World-538.pdf](#)

### Inequality Aversion and Marginal Income Taxation

**Thomas Aronsson<sup>1</sup>, Olof Johansson-Stenman<sup>2</sup>**

<sup>1</sup>Umeå University, Sweden; <sup>2</sup>University of Gothenburg, Sweden

This paper deals with tax policy responses to inequality-aversion by examining first-best Pareto-efficient marginal tax structure when people are inequality-averse. In doing so, we distinguish between four different and widely used models of inequality-aversion. The results show that empirically and experimentally quantified degrees of inequality-aversion have potentially very strong implications for Pareto-efficient marginal income taxation. Yet, the type of inequality aversion (self-centered vs. non-self-centered), and the measures of inequality used, matter a great deal. Based on simulation results mimicking the disposable income distribution in the US in 2013, the preferences suggested by Fehr and Schmidt (1999) imply monotonically increasing marginal income taxes, with large negative marginal tax rates for low-income individuals and large positive marginal tax rates for high-income individuals. In contrast, the in many respects comparable model by Bolton and Ockenfels (2000) implies close to zero marginal income tax rates for all.

 [Aronsson-Inequality Aversion and Marginal Income Taxation-469.pdf](#)

1:30pm - 3:30pm

Room B4113, Pinni B building

### G02: Sin Taxes

1:30pm - 2:00pm

#### Predicting the Effects of a Sugar Sweetened Beverage Tax in a Household Production Model

**Di Xiang<sup>1</sup>, Lue Zhan<sup>1</sup>, Massimo Bordignon<sup>2</sup>**

<sup>1</sup>Southwestern University of Finance and Economics, China, People's Republic of; <sup>2</sup>Università Cattolica del Sacro Cuore, Italy

We study the impact of a hypothetical tax on sugar - sweetened beverages (SSB) on the US households' nutrients purchase, welfare change, and health benefit. Differently from the traditional approach, Food at Home (FAH) is here defined as a "home" good instead than a market good. The model is estimated by using an incomplete approximate Exact Affine Stone Index demand system on US consumer expenditure and time use data. The results show that a SSB tax would be much more effective in decreasing household nutrients purchase than it would appear by estimating a model neglecting time costs in home food production. A tax induced increase in SSB price by 20% is predicted to decrease the per capita energy purchase by 29.17 kcal/day. The health benefits of the tax, measured only in terms of reduced medical expenditure, would overcome estimated welfare losses by more than \$1000 million.

 [Xiang-Predicting the Effects of a Sugar Sweetened Beverage Tax-313.pdf](#)

2:00pm - 2:30pm

#### Taxing Finland into a thinland? Evidence from a sweets tax reform

**Tuomas Kosonen<sup>1</sup>, Riikka Savolainen<sup>2</sup>**

<sup>1</sup>Labour Institute for Economic Research, Finland; <sup>2</sup>King's College London, United Kingdom

Increasing obesity problems in many developed countries have led governments to consider different solutions to tackle the problem. We study one such attempt in Finland: a sweets tax introduced in 2011. We study the pass-through to prices and the quantity elasticity of this excise tax that applied to sweets, chocolates, ice creams and various sweetened drinks. We have access to a unique product- and week-level data on sales from a large Finnish retailer chain with hundreds of millions of observations. Our findings suggest that the tax was fully passed through to the ice cream prices and more than fully passed through to prices of other treated categories. A tax reform in 2014 increased the tax rates for the sugared liquids while the other tax rates were kept constant. For this tax reform, we find evidence of the substitution from the sugared liquids towards the sugar-free ones.

 [Kosonen-Taxing Finland into a thinland Evidence from a sweets tax reform-335.pdf](#)



2:30pm - 3:00pm

**Externalities in the Parental Choice of Children's Diet: A New Foundation of Sin Taxes****Zarko Yordanov Kalamov, Marco Runkel**

Technische Universität Berlin, Germany

There are two arguments in the economic literature in support of fat taxes. First, obesity may result from self-control problems of individuals, who impose an externality on their future selves. Second, the treatment costs of obesity-related illnesses are largely borne by health insurance companies and, thus, constitute an externality on society. There are, however, critics of both arguments. We provide a new rationale behind fat taxes based on the empirical evidence that parents are imperfectly altruistic regarding their children. In an overlapping generations model of a representative family, we consider parents that do not fully take into account the long-term health costs of unhealthy eating by their children. Thus, they impose a negative externality on the next generation. We show that a fat tax is a second-best instrument to address this externality.

 [Kalamov-Externalities in the Parental Choice of Childrens Diet-543.pdf](#)

3:00pm - 3:30pm

**Taxable And Nontaxable Sin Goods****Luis Rodrigo Arnabal Rocca**

Toulouse School of Economics, France

Sin good consumption entails health damage that is in general not fully perceived by individuals. To tackle this problem, paternalistic governments have specifically taxed these unhealthy goods in order to discourage its consumption. Tobacco, alcohol, fat or sugar are prominent examples. However, not all the individual choices that affect health status can be easily observed by the government. Such is the case for illicit drugs and physical inactivity. In this paper we consider a setting where individuals can consume two types of sin goods: those that can be effectively taxed by the government and those that can't. We first derive the optimal tax for the taxable sin good when individuals are homogeneous. The rule for the taxable sin good is shown to depend on the degree of complementarity or substitutability with the nontaxable sin good. Finally, we incorporate redistributive considerations.

 [Arnabal Rocca-Taxable And Nontaxable Sin Goods-328.pdf](#)

1:30pm - 3:30pm

Room B1096, Pinni B building

**G03: Profit Shifting**

1:30pm - 2:00pm

**How Large is the Corporate Tax base Erosion and Profit Shifting? A General Equilibrium Approach****Maria Alvarez<sup>1</sup>, Salvador Barrios<sup>1</sup>, Diego d'Andria<sup>1</sup>, Maria Gesualdo<sup>1</sup>, Gaetan Nicodeme<sup>1,2</sup>, Jonathan Pycroft<sup>1</sup>**<sup>1</sup>European Commission, Belgium; <sup>2</sup>Université Libre de Bruxelles

This paper estimates the size and macroeconomic effects of base erosion and profit shifting (BEPS) using a computable general equilibrium model designed for corporate taxation and multinationals. Our central estimate of the impact of BEPS on corporate tax losses for the EU amounts to €36 billion annually or 7.7% of total corporate tax revenues. The USA and Japan also appear to lose tax revenues respectively of €101 and €24 billion per year or 10.7% of corporate tax revenues in both cases. These estimates are consistent with gaps in bilateral multinationals' activities reported by creditor and debtor countries using official statistics for the EU. Our results suggest that by increasing the cost of capital, eliminating profit shifting would slightly reduce investment and GDP. It would however raise corporate tax revenues thanks to enhanced domestic production. This in turn could reduce other taxes and increase welfare

 [Alvarez-How Large is the Corporate Tax base Erosion and Profit Shifting A General Equilibrium Approach-193.pdf](#)

2:00pm - 2:30pm

**Product-Market Competition and Profit Shifting of Multinational Enterprises****Patrick Gauß<sup>1,2</sup>, Michael Jähn<sup>1,2</sup>, Nadine Riedel<sup>1,5</sup>, Martin Simmler<sup>3,4</sup>**<sup>1</sup>Ruhr-University Bochum, Germany; <sup>2</sup>Ruhr Graduate School in Economics, Germany; <sup>3</sup>Oxford University Centre for Business Taxation, UK; <sup>4</sup>German Institute for Economic Research Berlin, Germany; <sup>5</sup>CESifo Munich, Germany

We investigate whether heterogeneity in firms' effective corporate tax cost impacts on product market competition. Two empirical identification strategies are pursued. The first follows the notion that multinationals gain competitive advantages in product markets by lowering their tax costs through income shifting to low-tax economies.

Exploiting changes in anti-profit shifting legislations which limit such income shifting, we show that national firms gain market shares when anti-shifting provisions raise the effective tax costs of multinational competitors. The second identification strategy presumes that firms located in different host economies compete in global product markets, implying that corporate tax changes in one country may impact on the sales of competitors located in other economies. We present evidence in line with that notion.

 [Gauß-Product-Market Competition and Profit Shifting of Multinational Enterprises-454.pdf](#)

2:30pm - 3:00pm

**Effect of Exchange Rate Movements on Profit Shifting. The Case of the Swiss Franc****Doina Maria Radulescu<sup>1</sup>, Federica Liberini<sup>2</sup>**<sup>1</sup>University of Bern, Switzerland; <sup>2</sup>Eth Zurich

This paper examines the role of exogenous earnings shocks, due to sudden exchange rate movements, on multinationals profit shifting behaviour. We exploit a sudden appreciation of the Swiss Franc vis-à-vis

the Euro of around 20%, as of January 2015. We draw on unconsolidated balance sheet data from Orbis and information on the exporting status of individual firms from the KOF Innovation Survey for the time period 2011 to 2016, and distinguish in our empirical exercise between non-exporting vs. exporting Swiss affiliates of multinational firms. Our results suggest that the sudden considerable appreciation of the Swiss Franc, which led to sizable decreasing revenues of Swiss exporting affiliates, translated into reduced declared pre-tax profits of their foreign parent.

[Radulescu-Effect of Exchange Rate Movements on Profit Shifting The Case of the Swiss Franc-286.pdf](#)

**3:00pm - 3:30pm**

### **How Tax Reform Switching from GRT to VAT Affects Firms' Outsourcing Behavior and Production Efficiency: Evidence from China**

**Chongen Bai, Yan Li, Binzhen Wu**

Tsinghua University, China, People's Republic of

Theory predicts that gross receipt tax (GRT) incentivizes firms to vertically integrate production and thus distorts production efficiency. Yet there has been surprisingly little empirical evidence for this prediction. This paper examines how Chinese tax reform that switched the GRT on service industry to VAT affected firms' outsourcing behavior and production efficiency. Using administrative data on firms tax payment from 2010 to 2015, we find that for manufacturing firms, when their exposure to the reform increases by 1 percent, the GRT-VAT reform increases outsourcing probability by up to 10 percentage points and the share of outsourcing out of sales increases by up to 0.25 percentage points. Manufacturing firms with higher exposure also show a greater increase in total factor productivity. For service industry, the outsourcing probability of affected service firms is 13 percentage points higher than that of unaffected firms, and the share of outsourcing out of sales increases by 0.036 percentage points.

[Bai-How Tax Reform Switching from GRT to VAT Affects Firms' Outsourcing Behavior and Production Efficiency-581.pdf](#)

**1:30pm - 3:30pm**

**Room B3109, Pinni B building**

### **G04: Retirement and Pension Policy**

**1:30pm - 2:00pm**

### **Tenure Choice, Portfolio Structure and Long-term Care - Optimal Risk Management in Retirement**

**Hans Fehr, Maurice Hofmann**

University of Wuerzburg, Germany

Our study analyzes the savings behavior of elderly and highlights the interplay between tenure decisions, stock market investment and long-term care risk. Housing equity serves a dual purpose as a consumption good and as an asset, consequently it is important for the optimal risk structure of the financial portfolio. In addition, recent contributions also point out its implicit insurance provision to buffer long-term care shocks. Our stylized life cycle model captures these links and indicates that in Germany long-term care risks may be an important driver for homeownership. In our preferred set-up housing equity is a rather low-risky investment that even encourages stock market participation among elderly homeowners.

[Fehr-Tenure Choice, Portfolio Structure and Long-term Care-225.pdf](#)

**2:00pm - 2:30pm**

### **The Effect of Retirement Pensions on Fertility: Evidence from a Natural Experiment in Brazil**

**Lennard Zyska, Alexander M. Danzer**

KU Eichstaett-Ingolstadt, Germany

To identify the link between the generosity of public pensions and declining fertility rates, this study uses an considerable exogenous change of eligibility criteria, coverage and benefit levels for rural workers in Brazil. Using data from the Brazilian National Household Survey (PNAD) and applying difference-in-differences methods, we show that more generous retirement pensions lead to declining fertility rates. We identify a treatment effect of -1.3 percentage points of the probability that a female rural worker give birth to a child. This corresponds to a decrease of the childbearing probability of 9% as a result of the reform and to a decrease of 57% in the childbearing probability difference between female rural and urban workers. The fertility response is significantly sharper among female rural workers aged 30-44, i.e. who are in the middle and late phases of their fertility cycle. Further, we observe that the fertility response becomes gradually stronger after the reform.

[Zyska-The Effect of Retirement Pensions on Fertility-519.pdf](#)

**2:30pm - 3:00pm**

### **Insurance, Efficiency and the Design of Public Pensions**

**Cormac O'Dea**

Yale University, United States of America

Government pension spending can be divided into two types: (1) Social Security-style benefits that depend on working-life earnings and (2) means-tested income floors. Spending on the former tends to be substantially greater than on the latter. Using an estimated lifecycle model that accounts for these, as well as endogenous labor supply, savings and realistic uncertainty, this paper investigates the optimal combination of the two types of pensions. For countries that provide Social Security-style benefits, I show that large (revenue-neutral) welfare gains can be obtained by increases in means-tested old-age income floors, with the cost of distortions induced more than offset by the value of insurance provided. The optimality of greater means-tested support is specific to older individuals: such support to younger households should be much lower. These results imply that governments should provide strong work incentives for the young, but provide pensions with good insurance properties for the old.

 [ODea-Insurance, Efficiency and th%De3ig. of Public Pensions-457.pdf](#)

3:00pm - 3:30pm

### Is unfunded social security system good or bad for growth? A theoretical analysis of social security system financed by VAT

**Noritaka Maebayashi**

The University of Kitakyushu, Japan

This study investigates the relationship between unfunded public pensions financed by VAT as discussed in Japan and economic growth in an overlapping generations model with family altruism. Public pension system under VAT finance itself can increase economic growth when bequests are operative. On the other hand, when bequests are inoperative, a growth-maximizing size of public pensions exists in an economy with sufficiently patient agents. The former result is opposite to the case of that under payroll tax finance whereas the latter result is qualitatively similar to that under payroll tax finance. Thus, in an economy where bequests are operative, introduction of public pensions financed by VAT may be good for growth. On the other hand, in an economy where bequests are inoperative, a large burden of public pensions financed by VAT may be bad for growth.

 [Maebayashi-Is unfunded social security system good or bad for growth A theoretical analysis-268.pdf](#)

1:30pm - 3:30pm

Room B3110, Pinni B building

G05: International Taxation III

1:30pm - 2:00pm

### On the Relevance of Double Tax Treaties

**Kunka Petkova, Andrzej Stasio, Martin Zagler**

Vienna University of Economics and Business, Austria

This paper investigates the effects of double tax treaties (DTTs) on foreign direct investment (FDI) after controlling for their relevance in the presence of treaty shopping. DTTs cannot be considered a bilateral issue, but must be viewed as a network, since FDI can flow from home to host country through one or more conduit countries. By accounting for treaty shopping, we calculate the shortest (i.e. the cheapest) tax distance between any two countries allowing the corporate income to be channelled through intermediate jurisdictions. We differentiate between *relevant* and *neutral* DTTs - i.e. tax treaties that offer investors a financial advantage - and *irrelevant* DTTs and use these data to derive two important results. First, only *relevant* and *neutral* tax treaties increase bilateral FDI, whereas *irrelevant* DTTs do not. Second, significant tax reductions due to treaty benefits will lead to an increase in FDI.

 [Petkova-On the Relevance of Double Tax Treaties-537.pdf](#)

2:00pm - 2:30pm

### Corporate Income Taxes Around The World: A Survey On Forward-looking Tax Measures And Two Applications

**Elias Steinmueller, Georg Ulrich Thuncke, Georg Wamser**

University of Tuebingen, Germany

This study provides a survey on corporate taxes around the world. Our analysis has three main objectives. First, we collect tax data and calculate (forward-looking) effective tax measures for a large sample of countries and recent years. We particularly describe how these measures vary over time and across countries. Second, we augment the country-level information with firm- and industry-level data (providing weights for financial structure and asset composition) to contrast country-level statutory measures with measures accounting for firm- and industry-specific weights. Third, we utilize our new data to (i) estimate Laffer-Curves, i.e., the relationship between statutory tax rate and tax revenue, based on non-parametric as well as parametric specifications; (ii) examine how taxes affect investment in fixed assets at the level of firms. As for the latter, our preferred specification, in which we use a firm-specific effective marginal tax rate to capture tax incentives, suggests an elasticity of -0.27.

 [Steinmueller-Corporate Income Taxes Around The World-356.pdf](#)


2:30pm - 3:00pm

### Increasing Tax Transparency: Investor Reactions to the Country-by-Country Reporting Requirement for EU Financial Institutions

**Verena Katharina Dutt<sup>1,2</sup>, Christopher Alexander Ludwig<sup>1,2</sup>, Katharina Nicolay<sup>1,2</sup>, Heiko Vay<sup>2</sup>, Johannes Voget<sup>1,2</sup>**

<sup>1</sup>ZEW Mannheim, Germany; <sup>2</sup>University of Mannheim, Germany

We employ an event study methodology to investigate the stock price reaction around three key dates of the EU legislation procedure implementing a public country-by-country reporting obligation for EU financial institutions. After controlling for confounding events, we do not find significant abnormal returns for the banks affected on any of the event dates. A sample split according to the effective tax rates does not reveal a more pronounced negative investor response for banks that are assumed to engage more strongly in tax planning activities. We conclude that investors did not expect the disclosure requirement to provide incremental information or to exert sufficient public pressure on the banks to change their management's approach to tax. Contrary prior findings regarding a similar reporting obligation for EU companies in the extractive industries might be driven by the distinct motivation and design of this rule which aims at fighting corruption rather than tax avoidance.

 [Dutt-Increasing Tax Transparency-250.pdf](#)

3:00pm - 3:30pm

### Worldwide And Territorial Taxation Of Profits And Multinational Firms' Competitiveness

**Martin Simmler<sup>1</sup>, Inga Bethmann<sup>2</sup>**<sup>1</sup>Oxford University, United Kingdom; <sup>2</sup>WHU, Germany

This study examines the importance of international tax rate differences for multinational firms' (MNE) competitiveness by investigating the impact of a regime change from worldwide to territorial taxation. Since worldwide taxation mitigates tax rate differences between countries, we expect that a regime change triggers the re-location of production towards low tax countries, increases exports from low tax to high tax countries as well as increases MNEs' market share in high tax countries on the costs of MNEs' competitors. We test the predictions using the UK tax regime change from worldwide to territorial taxation in 2009.

 [Simmler-Worldwide And Territorial Taxation Of Profits And Multinational Firms Competitiveness-308.pdf](#)

**1:30pm - 3:30pm**  
**Room B4115, Pinni B**  
**building**

## **G06: Local Tax Competition**

**1:30pm - 2:00pm**

### **Local Income Tax Competition With Progressive Taxes and a Fiscal Equalization Scheme**

**Florian Kuhlmei**

University of Basel, Switzerland

This paper develops a model of local income tax competition with a progressive tax scheme and a built-in fiscal equalization scheme. Both aspects are central to policy makers: The progressivity for equity reasons, and the fiscal equalization to prevent a race to the bottom and to limit the degree of segregation of households according to income. The model is calibrated to the metropolitan area of Zurich (Switzerland), and policy evaluations reveal that a progressive tax scheme as the basis for local tax competition causes strong segregating forces that can only to some extent be compensated by the fiscal equalization scheme.

 [Kuhlmei-Local Income Tax Competition With Progressive Taxes and a Fiscal Equalization Scheme-150.pdf](#)

**2:00pm - 2:30pm**

### **No Taxation Without Decentralisation? Tax Autonomy and Accountability in a Federation**

**Willem Sas**

University of Stirling, United Kingdom

Devolving tax authority to lower levels of government is often argued to better align the actions of politicians with the wishes of voters. In this paper, we propose a political economy theory of tax decentralisation, and derive the conditions for local tax autonomy to bring about welfare-enhancing policies. We add to the literature by modelling a multi-tiered, political agency setting where growth-enhancing policies produce additional tax revenues. Rent-seeking incumbents can then improve their chances of re-election by setting precisely such policies, not only to boost their reputation, but also to gain additional revenues for (pork-barrel) targeting. The resulting 'disciplining effect' proves stronger in a unitary setting, where all public spending is kept at the centre. However, given a certain degree of decentralised spending and a sufficient amount of rent-seeking politicians, expanding subnational tax autonomy unambiguously adds to voter welfare.

 [Sas-No Taxation Without Decentralisation Tax Autonomy and Accountability-583.pdf](#)

**2:30pm - 3:00pm**

### **Tax Assignment: A Helping or a Grabbing Hand?**

**Rose Camille Vincent**

Maastricht University (UNU-MERIT), Université Clermont-Auvergne (CERDI-CNRS)

The SGT of fiscal federalism posits that lower-tier governments are inclined to promote private sector development when they capture a large portion of revenues generated by economic activities within their jurisdictions. So far, however, empirical evidence to support these claims is scattered and often based on case-studies. Drawing from a newly constructed dataset on tax and revenue assignment, this paper investigates the potential effect of tax assignment on the fiscal burden of firms. From the new dataset are derived several indices which capture the discretionary and decision-making power of lower-tier governments over major tax instruments, thus revealing the complexity of the tax system in each country. Unlike the SGT literature, the results indicate that firms in countries with high degree of tax assignment perceive a greater burden of the tax structure on their business operations. The findings are also robust to several specifications and the use of longitudinal firm-level data.

 [Vincent-Tax Assignment-555.pdf](#)

**3:00pm - 3:30pm**

### **Multi-tier tax competition on Gasoline**

**Emmanuelle Taugourdeau<sup>1</sup>, Marie-Laure Breuille<sup>2</sup>**

<sup>1</sup>CNRS CREST, France; <sup>2</sup>INRA, France

This paper aims to analyze the fiscal interactions arising from gasoline taxation in a federation. We adopt a general theoretical model for studying simultaneous vertical and horizontal tax competition by i) introducing a specific monetary cost of refueling ii) assuming that the price of gasoline is affected by either excise taxes (local and federal) and the VAT rate, ii) considering elastic demand for gasoline. We show that horizontal taxes are strategic complements but vertical taxes are strategic substitutes. Moreover, horizontal excise taxes are strategic substitutes with VAT whereas the result is unclear for the reaction between local and federal excise taxes. Finally, we show that the tax reaction functions and thus the equilibria crucially differ according to the pattern of decision-making (social planner, Nash or decentralized leadership).

[Taugourdeau-Multi-tier tax competition on Gasoline-254.pdf](#)

1:30pm - 3:30pm

Room B4116, Pinni B building

G07: Public Goods

1:30pm - 2:00pm

**Yardstick Competition, Tax Competition and Efficiency of Public Goods****Yasuyuki Nishigaki<sup>1</sup>, Yuzo Higashi<sup>2</sup>, Hideya Kato<sup>1</sup>**<sup>1</sup>Ryukoku University, Japan; <sup>2</sup>Kushiro Public University of Economics, Japan

Yardstick competition theory depicts intergovernmental competitions with advantageous effects to discipline the performance of local governments. Further, a political inter-relation causes interdependence in policy decisions and mimicking of policy variables or tax rates. Tax competition among local governments, on the other hand, addresses interaction due to inter-jurisdictional mobility of the tax base. By introducing the production of private and public goods using the inter-regionally mobile factor of capital stock, this paper investigates the tax competition in a yardstick competition model. The harmful effects of under-provision of public goods caused by tax competition and political competition are synthesized in the yardstick equilibrium. Furthermore, it is indicated that the externality caused by the loss in capital stock is alleviated by the informational externality of the yardstick comparison.

[Nishigaki-Yardstick Competition, Tax Competition and Efficiency-347.pdf](#)

2:00pm - 2:30pm

**Endogenous Timing and Income Inequality in the Voluntary Provision of Public Goods: Theory and Experiment****Atsue Mizushima<sup>1</sup>, Jun-ichi Itaya<sup>2</sup>, Kengo Kurosaka<sup>3</sup>**<sup>1</sup>Otaru University of Commerce, Japan; <sup>2</sup>Hokkaido University, Japan; <sup>3</sup>Hokkaido Musashi Momen's Junior College, Japan

The purpose of this paper is to investigate how heterogeneous incomes as well as heterogeneous preferences among potential donors affect the timing of contribution decisions when the timing decisions of contributions is endogenously determined by contributors themselves. By using a two donors, Cobb-Douglas preferences, and complete information, we show the following results. First, when income is extremely unequal, the timing between simultaneous and sequential moves is indifferent. Second, when the income gap is narrowed, the simultaneous move is more likely to arise as an equilibrium, because all potential contributors prefer acting as a leader. Nevertheless, the higher valued contributors also prefer acting as a follower. Third, our theoretical predictions are positively confirmed by the experiment at least in the voluntary provision of a single public good.

[Mizushima-Endogenous Timing and Income Inequality in the Voluntary Provision-265.pdf](#)

2:30pm - 3:00pm

**Existence, Uniqueness, and Algorithm for Identifying Free-Riders in Multiple Public Good Games: Replacement Function Approach****Kenichi Suzuki<sup>1</sup>, Tatsuyoshi Miyakoshi<sup>2</sup>, Jun-ichi Itaya<sup>3</sup>, Akitomo Yamanashi<sup>3</sup>**<sup>1</sup>Tohoku University; <sup>2</sup>Hosei University; <sup>3</sup>Hokkaido University

This paper shows uniqueness of Nash equilibrium in the model of multiple voluntarily supplied public goods with heterogeneous potential contributors possessing Cobb-Douglas preferences. This paper provides a sufficient condition for unique equilibrium with the help of Graph Theory. This sufficient condition allows us to use the replacement function approach of Cornes and Hatley (2007) to develop an algorithm for identifying free riders and to provide alternative proof for the existence of a unique Nash equilibrium in multiple public goods models.

[Suzuki-Existence, Uniqueness, and Algorithm for Identifying Free-Riders-206.pdf](#)

3:00pm - 3:30pm

**On the Maximum Number of Players Voluntarily Contributing to Two or More Public Goods****Shintaro Nakagawa**

Konan University, Japan

In the voluntary provision of two or more public goods, unless the system of equations representing the Nash equilibrium is overdetermined, the number of players who contribute simultaneously to two or more public goods is bounded by the number of public goods. Other players contribute at the most one public good.

[Nakagawa-On the Maximum Number of Players Voluntarily Contributing-271.pdf](#)

1:30pm - 3:30pm

Main auditorium (Juhlasali), Main building

G08: Misallocation and Public Policy (Bank of Finland special session)

Session Chair: Juuso Vanhala, Bank of Finland

1:30pm - 2:00pm

**Cyclical and Structural Variation in Resource Reallocation in Europe****Paloma Lopez-Garcia<sup>1</sup>, Giorgio Presidente<sup>2</sup>, Eric Bartelsman<sup>3</sup>**<sup>1</sup>European Central Bank, Germany; <sup>2</sup>World Bank, United States of America; <sup>3</sup>Vrije Universiteit Amsterdam and Tinbergen Institute, Netherlands

This paper uses cross-country micro-aggregated data on firm-dynamics and productivity from the ECB CompNet project to provide empirical evidence on factor reallocation in the EU. The analysis finds that reallocation is towards more productive firms although the magnitude varies across countries. Variation in reallocation is related to structural differences in firm size distribution across countries as well as to variation in labor and product market institutions. Productivity enhancing reallocation varies countercyclically but, similarly to findings for the US, it did not pick up in the great recession as it had in previous downturns. The sharp drop in exports and tightness in credit markets are seen to provide a partial explanation for this lack of a silver lining.

2:00pm - 2:30pm

### **Insolvency Regimes, Zombie Firms and Capital Reallocation**

**Valentine Millot, Müge Adalet McGowan, Dan Andrews**

OECD, France

This paper explores cross-country differences in the design of insolvency regimes and their potential links with two inter-related sources of labour productivity weakness: the survival of “zombie” firms (firms that would typically exit in a competitive market) and capital misallocation. New cross-country policy indicators of insolvency regimes are constructed based on countries’ responses to a recent OECD questionnaire. According to these metrics, cross-country differences in the design of insolvency regimes are significant. Firm level analysis shows that reforms to insolvency regimes which reduce barriers to corporate restructuring and the personal cost associated with entrepreneurial failure may reduce the share of capital sunk in zombie firms. These findings carry strong policy implications, in light of the fact that there is much scope to reform insolvency regimes in many OECD countries and given evidence that rising capital misallocation and the increasing survival of low productivity firms have contributed to the productivity slowdown.

 [Millot-Insolvency Regimes, Zombie Firms and Capital Reallocation-615.pdf](#)

2:30pm - 3:00pm

### **Do Tax Incentives for Research Increase Firm Innovation? An RD Design for R&D**

**Antoine Dechezleprêtre<sup>2</sup>, Elias Einio<sup>1</sup>, Ralf Martin<sup>3</sup>, Kieu-Trang Nguyen<sup>3</sup>, John Van Reenen<sup>3</sup>**

<sup>1</sup>VATT & CEP/LSE, Finland; <sup>2</sup>OECD & LSE, UK; <sup>3</sup>London School of Economics, UK

We present evidence of a causal impact of research and development (R&D) tax incentives on innovation. We exploit a change in the asset-based size thresholds for eligibility for R&D tax subsidies and implement a Regression Discontinuity Design using administrative tax data on the population of UK firms. There are statistically and economically significant effects of the tax change on both R&D and patenting (even when quality-adjusted). R&D tax price elasticities are large at about 2.6, probably

because the treated group is from a sub-population of smaller firms and subject to financial constraints. There does not appear to be pre-policy manipulation of assets around the thresholds that could undermine our design. Over the 2006-11 period aggregate business R&D would be around 10% lower in the absence of the tax relief scheme. We also show that the R&D generated by the tax policy creates positive spillovers on the innovations of technologically related firms.

3:00pm - 3:30pm

### **The Demography of Zombies – What Keeps Them Alive?**

**Juuso Vanhala<sup>1</sup>, Satu Nurmi<sup>2</sup>, Matti Virén<sup>1</sup>**

<sup>1</sup>Bank of Finland, Finland; <sup>2</sup>Statistics Finland

We study firm dynamics behind the secular increase of insolvent zombie firms and the congesting effects of zombies on the economy. Using firm-level data from Finland (1999-2015), we document a broad based rise in the proportion of zombies across sectors, firm size and age. Interestingly, we find that in both young and older firms a significant proportion of zombies are growing firms, suggesting that the zombie status may reflect a temporary investment phase in the life-cycle of the firm. As a novelty, we analyse zombie demographics, i.e. entry and exit to zombie status and the duration of zombie periods. Moreover, the analysis shows that the share of zombie firms affects output and employment growth negatively. This is particularly true for zombies which do not grow. Zombie firms seem to be dependent on government subsidies; the existence of subsidies provide one explanation to why these firms can survive over time.

1:30pm - 3:30pm

Room A1081, Pinni A building

G09: Migration

### **Does A Job Loss Lead To Migration And Earnings Gains?**

**Terhi Anita Maczulskij, Petri Böckerman, Tuomas Kosonen**

Labour Institute for Economic Research, Finland

We use a comprehensive linked employer-employee panel data to examine the effect of involuntary job losses on regional mobility over the period 1995-2014. We also examine whether displaced movers obtain earnings and employment gains compared to displaced stayers. The results reveal that job displacement affects positively to the propensity to migrate. The estimates represent a sizeable increase in the migration probability of ~70%. However, social capital in a region and housing characteristics decrease the propensity to move following an involuntary job loss, indicating that people do not make the migration decisions solely based on short-term economic incentives. The results also show a notable return migration flow during the aftermath of recent financial crisis. Migration has an immediate negative relationship with earnings for both genders, but the link diminishes as time passes and turns eventually into positive for men. Overall, the link between migration and employment is nevertheless positive and persistent for both genders.

 [Maczulskij-Does A Job Loss Lead To Migration And Earnings Gains-491.pdf](#)

**Exchange rate fluctuations and border crossings: evidence from the Swiss-Italian border****Piera Bello**

Università della Svizzera italiana, Switzerland

This study empirically analyses the effects of nominal exchange-rate fluctuations on cross-border mobility and on retail sales. By using hourly data on traffic flows in Ticino, the southernmost canton of Switzerland, and data on Italian supermarkets, I estimate the effects of the Swiss franc's appreciation on cross border travel by both Italian workers and Swiss consumers, and on Italian retail sales. I find that a 10% appreciation in the CHF increases the number of cars along the border by 1.6-2.9% more than in the rest of the canton. This effect is found only during specific time intervals, which differ according to the flow direction ( the early morning from Italy to Switzerland, the afternoon from Switzerland to Italy, and late morning for both directions). Moreover, I show that a stronger CHF positively affects supermarket sales in the Italian provinces that border Switzerland.

 [Bello-Exchange rate fluctuations and border crossings-533.pdf](#)
**The Effect of Initial Placement Restrictions on Refugees' Language Acquisition in Germany****Felicitas Sophie Kathrin Schikora**

German Institute for Economic Research (DIW Berlin), Germany

This paper disentangles the effects of a recently introduced policy reform on participation measures and language development of refugees in Germany. The residence rule puts limitations on initial residence decisions for refugees with a permanent residence permit. Given that treatment intensity varies distinctly across states, I use this exogenous variation in a Differences-in-Differences approach. I assess the reform's effect on participation in language courses and refugees' language skills. The results indicate that living in a state with strict statutory provisions has a positive effect on the probability to complete a language course and on certified language levels.

 [Schikora-The Effect of Initial Placement Restrictions on Refugees Language Acquisition-444.pdf](#)

**1:30pm - 3:30pm**  
**Room B4117, Pinni B**  
**building**

**G10: Capital Taxation****1:30pm - 2:00pm****The elasticity of preferences for capital taxation: Evidence from a randomized survey field experiment****Spencer Bastani<sup>1</sup>, Daniel Waldenström<sup>2</sup>**<sup>1</sup>Linnæus University, Sweden; <sup>2</sup>Research Institute for Industrial Economics (IFN); Paris School of Economics

We analyze how information treatments regarding housing wealth and inheritance affect attitudes to different capital taxes. Our analysis is based on a randomized survey field experiment involving a representative sample of the Swedish population. By linking the survey results to detailed register data, we are able to investigate how the effects of our information treatments differ among individuals who differ along important dimensions such as taxable income, wealth holdings and property ownership. Our findings potentially have important implications for both theoretical aspects of and practical considerations for the taxation of wealth and capital income.

 [Bastani-The elasticity of preferences for capital taxation-307.pdf](#)
**2:00pm - 2:30pm****Optimal Estate Taxation: More (about) Heterogeneity across Dynasties****Philipp Krug**

KU Eichstätt-Ingolstadt, Germany

I introduce intergenerational correlation in bequeathing behavior to a simple model with heterogeneously altruistic parents. Bequeathing behavior across a dynasty's generations may be correlated due to genetic and cultural transmission of preferences and indirect reciprocity. I derive two insights for optimal estate taxation. First, such a correlation increases the optimal linear estate tax. Second, the estate tax to be paid by an individual should be based on the size of bequests received by the individual. These results hold for the tax rate in the case of linear estate taxation as well as for marginal tax rates in the case of nonlinear estate taxation.

 [Krug-Optimal Estate Taxation-440.pdf](#)
**2:30pm - 3:00pm****Taxing Away M&A: Capital Gains Taxation and Acquisition Activity****Lars P. Feld<sup>3</sup>, Martin Ruf<sup>2</sup>, Ulrich Schreiber<sup>1</sup>, Maximilian Todtenhaupt<sup>1</sup>, Johannes Voget<sup>1</sup>**<sup>1</sup>University of Mannheim & ZEW, Germany; <sup>2</sup>University of Tübingen & NoCeT; <sup>3</sup>University of Freiburg

Capital gains taxation distorts the takeover market by imposing a cost on selling shareholders in acquisitions. This drives up premiums required for deal completion preventing some M&As from taking place at all. We estimate the effect of capital gains taxation on the quantity of realized M&A deals and compute the shareholder loss related to taxing these transactions. We find that a one percentage point increase in the capital gains tax rate reduces acquisition activity by around 1% annually. The total cost of capital gains taxation in foregone synergy gains amounts to \$9.3 billion each year for the United States.

 [Feld-Taxing Away M&A-467.pdf](#)

**1:30pm - 3:30pm**

**G11: Economic and Political Reactions to Changes**

Room D13, Main  
building

1:30pm - 2:00pm

### Chance or threat? Effects of non-citizens voting rights on natives' attitudes towards immigrants

**Anna Koukal, Marco Portmann**

University of Fribourg, Switzerland

In a world shaped by globalization and international mobility most democratic participation rights are still tied to traditional forms of citizenship. Thus, noncitizens form the largest disenfranchised group in the contemporary society. The scarce but evolving literature attributes positive effects of noncitizens voting rights to immigrants' integration. Interestingly the evaluation of natives with respect to noncitizens enfranchisement is rarely discussed. We combine new data about the Swiss noncitizens enfranchisement process with individual data. This allows us to analyze differential effects of enfranchising noncitizens on natives' attitudes towards foreigners and democracy. Applying a difference in difference approach we find that natives seem to be more reluctant towards additional migration but show a tendency to reduce negative attitudes towards present noncitizens. Moreover, our results suggest a stronger satisfaction with democracy and a positive effect on the attitude towards noncitizens of those natives who live in municipalities which initially opposed the suffrage extensions.

 [Koukal-Chance or threat Effects of non-citizens voting rights-505.pdf](#)

2:00pm - 2:30pm

### Money for Nothing? Revisiting the Effect of Campaign Spending on Votes in a Floating Two-Party System

**Martial Foucault<sup>2,3</sup>, Marcelin Joanis<sup>1,3</sup>**

<sup>1</sup>Polytechnique Montreal, Canada; <sup>2</sup>Sciences Po Paris, France; <sup>3</sup>CIRANO, Canada

This paper deals with the influence of campaign spending on electoral outcomes in the context of the sudden rise and demise of a third party in an otherwise stable two-party system -- i.e. a 'floating two-party system.' Such a change to the degree of electoral competition at the electoral district level provides variation out of which the effect of spending on votes can be estimated. To address the endogeneity problems that notoriously plague the estimation of this causal relationship, we propose a novel instrumental variable (IV) strategy. It exploits both the legislated spending limits faced by local candidates and changes to local electoral competition. Our empirical analysis is based on a dataset of candidates in four provincial elections in Quebec. Our IV results show a positive return to campaign spending for incumbent candidates -- but not for non-incumbents -- and for candidates in electorally safe constituencies.

 [Foucault-Money for Nothing Revisiting the Effect of Campaign Spending-341.pdf](#)

2:30pm - 3:00pm

### Party Ideology, Institutional Environments, and the integration of Party membership and private entrepreneurship in China

**Jin Yang<sup>1</sup>, Jian Huang<sup>1</sup>, Yanhua Deng<sup>2</sup>, Massimo Bordignon<sup>3</sup>**

<sup>1</sup>Southwestern University of Finance and Economics, China, People's Republic of; <sup>2</sup>Nanjing University, China, People's Republic of; <sup>3</sup>Università Cattolica del Sacro Cuore

The paper empirically examines the integration of Party membership and private entrepreneurship in China after a drastic change in 2002, when Chinese Communist Party revised its constitution and officially removed ideological discrimination against private entrepreneurs. Using six waves of a nationwide survey of privately owned enterprises in China from 1997 to 2008, we find that the constitutional change turned out to have greatly motivated party members to enter the private sector rather than facilitating private entrepreneurs to be admitted to the party. Moreover, the phenomenon of party members becoming entrepreneurs was more prominent in regions with weaker market-supporting intuitions, since affiliation with the party privileged private entrepreneurs considerably in such environments like helping private entrepreneurs to secure loans from state owned banks and alleviating government expropriation in the form of extralegal payment.

 [Yang-Party Ideology, Institutional Environments, and the integration-290.pdf](#)

3:00pm - 3:30pm

### The Terra-scandal: Household responses to a public financial shock

**Oddmund Berg**

NHH, Norway

In the fall of 2007, news emerged that eight Norwegian energy producing municipalities had sold up to ten years of future earnings from their hydro-electric power plants and invested it in high-risk financial products. Some of these municipalities lost more than 80 percent of the invested amount. I use a difference in difference set up to show that this lead to a reduction in private consumption by 1.8 percent, the year after. While public spending decreased permanently in the period after, the consumption effect was temporary. I therefore argue that the behaviour is caused by uncertainty related to future public spending, not the reductions in public spending themselves. To this end, I show that households in the affected municipalities rebalance their balance sheets to holding a lower share of risky assets.

 [Berg-The Terra-scandal-177.pdf](#)

1:30pm - 3:30pm

Room Paavo Koli,  
Pinni A building

**G12: Corporate Taxation**

1:30pm - 2:00pm



**The Role of Capital Gains Taxes for Corporate Acquisition Strategies****Michael Stimmelmayer, Fedrica Liberini, Antonio Russo**

ETH Zürich, Switzerland

Ownership takeovers often follow complex strategies where the control of the target firm is acquired through a sequence of independent contracts. Based on this observation, we develop a theoretical model wherein the acquiring firm decides on the number of steps towards the full ownership of the target (the acquisition structure) and on the combination of cash and stock used to finance the takeover (the method of payment). Within this framework, we analyze the effect of the capital gains tax on these two decision margins and test our theoretical prediction using a bivariate probit model on a sample of acquisition contracts between 2002 and 2014, collected from Bureau van Dijk's Zephyr database.

Our estimates confirm the lock-in-effect and indicate a larger discouraging effect of rising capital gains taxes (+10%-points increase) on one-shot full acquisition (-6.0%-points) versus on sequential acquisitions (-5.2%-points).

 [Stimmelmayer-The Role of Capital Gains Taxes for Corporate Acquisition Strategies-437.pdf](#)

**2:00pm - 2:30pm****Corporate Taxation, Tax Administration And Development****Mohammed Mardan**

ETH Zürich, Switzerland

This paper analyzes whether optimal tax policies differ between developed and developing countries. I show that, in a fully optimized tax system, the relation between development and both the optimal corporate income tax rate as well as the effectiveness of the tax administration follows a U-shaped pattern. However, observed tax policies partially differ from this model prediction because developing countries usually have weak administrative structures. Therefore, the model suggests a so far unmentioned difference between developed and developing countries because the predictions of the model are only fully consistent with the observed tax policies under the premise that governments in developing countries do not take into account the repercussion of their tax policies. Based on this insight, I show that the fight against tax havens unambiguously increases tax revenues in developed countries but has diametrically opposing tax revenue effects in developing countries.

 [Mardan-Corporate Taxation, Tax Administration And Development-257.pdf](#)

**2:30pm - 3:00pm****The Effect of Loss Offset Provisions on the Asymmetric Behaviour of Corporate Tax Revenues in the Business Cycle****Katarzyna Anna Habu<sup>1,2</sup>**<sup>1</sup>Utah State University, United States of America; <sup>2</sup>NBER, United States of America

This paper estimates the response of corporate tax revenues to the business cycle fluctuations and calculates a heterogeneous asymmetry in the tax revenue responses between booms and recessions using a new index of loss offset generosity provisions. I find strong short-run contemporaneous impact of business cycle on corporate tax revenues and a persistent asymmetric response of corporate tax revenues to booms and recession. Loss offset generosity provisions enhance this asymmetry. Countries with more generous loss offset provisions experience much more volatile response of corporate tax revenues to business cycle during recessions, magnifying the asymmetry of cyclicity. As a result the automatic stabilizer impact of corporation tax will differ between booms and recessions, being stronger and more effective in the latter, especially in countries that offer more generous loss-offset provisions.

 [Habu-The Effect of Loss Offset Provisions on the Asymmetric Behaviour of Corporate Tax Revenues-144.pdf](#)

**3:00pm - 3:30pm****Forward-looking Effective Tax Rates On Bank Loans****Ernesto Zangari, Elena Pisano**

Banca d'Italia

The paper extends to the banking sector the Boadway-Bruce-Mintz's framework used to compute effective tax rates for non-financial firms. The model considers the interactions between tax, accounting, company law, and regulatory constraints on banks' financial structure. It disentangles the different components of loan price related to single tax provisions, namely tax rates, limits to interest deductibility and the deductibility of the cost of equity under the Allowance for Corporate Equity (ACE). In addition, the model gives insights on the impact of the deferral of loan loss provisions (LLP) deductibility and the role played by deferred tax assets (DTAs). The model – applied to the Italian banking sector – shows inter alia that the ACE introduced in 2011 has been effective in reducing the debt bias and that the deductibility limits for LLP could have generated distortions along several dimensions.

 [Zangari-Forward-looking Effective Tax Rates On Bank Loans-455.pdf](#)

**1:30pm - 3:30pm****Room D14, Main building****G13: Optimal Taxation III****Corrective Tax Design In Imperfectly Competitive Markets****Martin OConnell, Kate Smith**

Institute for Fiscal Studies, United Kingdom

The effectiveness of soda taxes depends on how individuals switch their consumption in response to price rises, to what extent firms re-optimize their prices, and how the tax is structured. We study the design of soda taxes, taking account of the re-optimization of both consumers and firms, and comparing a tax levied directly on sugar with the volumetric and ad valorem taxes used in practice. Using novel longitudinal data on both soda purchased for at home and on-the-go consumption, we estimate demand and pricing

competition in the market. We simulate the optimally set tax rates and show that there are significant gains to be had from levying tax directly on the sugar in soda.

[OConnell-Corrective Tax Design In Imperfectly Competitive Markets-488.pdf](#)

### On the Political Economy of the Income-tax Threshold

**Anasuya Raj, Pierre Boyer**

CREST, Ecole Polytechnique, France

This paper develops a conceptual framework to analyze the political forces affecting the income-tax threshold in a non-linear tax system. Firstly, we study how reforms affecting marginal tax rates and the income-tax threshold can be politically feasible. Our main theoretical results show the relationship between the types of reforms affecting the income-tax threshold and the identity of the decisive voters who make them politically feasible. In particular, we prove that the individual with median income is not necessarily decisive. Secondly, we highlight a mechanism (called "decote") used by French politicians to effectively control the number of households with positive income tax liability and show how it interacts with reforms of the statutory tax rates.

[Raj-On the Political Economy of the Income-tax Threshold-499.pdf](#)

### Progressive Tax Reforms in Flat Tax Countries

**Salvador Barrios<sup>1</sup>, Viginta Ivaškaitė-Tamošiūnė<sup>1</sup>, Anamaria Maftei<sup>1</sup>, Edlira Narazani<sup>1</sup>, Janos Varga<sup>2</sup>**

<sup>1</sup>Euro0ean Commission, Joint Research Centre, Spain; <sup>2</sup>European Commission, Directorate General for Economic and Financial Affairs, Belgium

Much of the empirica, literature on flat tax reforms has highlighted the overall economic benefits of introducing flat tax systems. Accordingly, arguments like tax simplification, higher tax compliance and lower distortionary effects on growth and employment have been widely used to support policy recommendations favouring the adoption of flat tax systems in Central and Eastern Europe in the 1990s and the 2000s. Recent evidence suggests, however, that the role of tax systems in reducing inequalities declined over the past decade, especially so in European countries having adopted flat tax systems. In this paper we analyse the fiscal, redistributive and macroeconomic impact of re-introducing progressivity in the EU Member States with flat tax systems. Using microsimulation and macro-models, we find that significant reduction in income inequality can be achieved by moving from a flat to a progressive tax system. However, there are substantial variations depending on country-specificities and tax system characteristics.

[Barrios-Progressive Tax Reforms in Flat Tax Countries-516.pdf](#)

1:30pm - 3:30pm  
Room A07, Main  
building

## G14: Fiscal Federalism II

1:30pm - 2:00pm

### The Economic Geography of the Public Sector: Theory and Evidence from Secondary Schools in Paris

**Gabriel Loumeau**

ETH Zurich, Switzerland

This paper investigates the problem of the optimal location of public facilities. I develop a quantifiable model in which the central planner decides on a location strategy, i.e. the number, location and capacity, of public facilities, while anticipating how residential density and housing prices will react. The planner's objective is to maximize individual utility while minimizing the sum of fixed and variable facility costs. I prove the existence of an equilibrium for any given set of facility locations; and derive the optimal location strategy using a gradient based algorithm. I calibrate the model to fit the characteristics of the Paris region and focus on secondary schools as an example of public facilities. The counterfactual analysis suggests that important welfare gains could be enjoyed by better accounting for the general equilibrium effects on commutes, housing prices and amenities.

[Loumeau-The Economic Geography of the Public Sector-494.pdf](#)

2:00pm - 2:30pm

### The Puzzle Of Complex vs Simple Intergovernmental Equalization System Design. The Case Of Expenditure Needs Indicators In Italy

**Alberto Zanardi<sup>1</sup>, Giampaolo Arachi<sup>2</sup>, Francesco Porcelli<sup>3</sup>**

<sup>1</sup>University of Bologna, Italy; <sup>2</sup>University of Salento; <sup>3</sup>SOSE SpA (Italian Ministry of Finance)



There is a common consensus that fiscal equalization of local governments should account of both fiscal capacity and expenditure needs. However, the expenditure needs introduces complexity which raises monitoring costs, discretion and disagreement amongst policy makers thus increasing incentives for rent-seeking. However, the existing literature does not provide any guidance to solve this trade-off. This paper investigates how the collective decision mechanism affects the adoption of complex vs. simple fiscal rules through the analysis of the recent Italian experience on the design of equalization grants at municipal level. We show that majority voting cannot explain the choice of the complex equalization rule adopted in Italy and discuss the factors that may affected the outcome of the collective choice process. In particular, we emphasize the role of complexity in favouring rent-seeking behaviour by local politicians and the role of the bargaining power of different institutional actors involved in the decision-making process..

[Zanardi-The Puzzle Of Complex vs Simple Intergovernmental Equalization System Design The Case Of Expenditure.pdf](#)

2:30pm - 3:00pm

### Should Unemployment Insurance Be Centralized In A State Union?

**Robert Fenge, Max Friese**

	<p>University of Rostock, Germany</p> <p>This paper compares the decentral organization of unemployment insurance in member states of a state union with the central organization at the upper union' level. In a model of two countries the labor force and the firm owners can migrate between the states. Labor markets exhibit unemployment due to trade union's bargaining about the wage rate. In a decentral scenario the states organize independently unemployment insurance and decide about the rate on wages contributed to the insurance budget. Due to open borders they have to take account of migration effects. However, with perfect mobility between the states each government chooses a socially optimal contribution rate such that workers are fully insured against unemployment. In the central scenario the governments overestimate the costs of insurance when bargaining about the contribution rate and observing the common insurance budget of both countries. This leads to a less than socially optimal contribution rate.</p> <p> <a href="#">Fenge-Should Unemployment Insurance Be Centralized In A State Union-162.pdf</a></p>
	<p><b>3:00pm - 3:30pm</b></p> <p><b>Does purchase centralization reduce public expenditure? Evidence from the Italian health-care system</b></p> <p><b>Massimiliano Ferraresi<sup>2</sup>, Gianluca Gucciardi<sup>3</sup>, Leonzio Rizzo<sup>1</sup></b></p> <p><sup>1</sup>University of Ferrara, Italy; <sup>2</sup>European Commission - JRC, Italy; <sup>3</sup>University of Ferrara, Italy</p> <p>Regional Central Purchasing Bodies operating for local hospitals were introduced to centralize purchases of goods and services, with the aim of reducing prices and facilitate cost reductions, mainly leveraging on economies of scale and larger bargaining power. In this work, we examine this hypothesis adopting a difference-in-difference model to test the causal relationship of the introduction of regional CPBs operating in the health-care systems. Our findings show that per capita total expenditure is reduced to a range of 3-4%, according to the specification of the model, where local hospitals are supplied through a regional CPB. Specifically, this reduction is mainly driven by a subset of supplies, that is health services (e.g., medical and other health-related professional consultancies), while the impact on goods and other non-health services expenditure is not significant. Moreover, the obtained expenditure reduction is achieved without a significant downsizing of local services to citizens.</p> <p> <a href="#">Ferraresi-Does purchase centralization reduce public expenditure Evidence-184.pdf</a></p>
<b>3:30pm - 4:00pm</b>	<b>Coffee Break</b>
<b>4:00pm - 5:00pm</b> <b>Main auditorium (Juhlasali), Main building</b>	<b>Plenary IV: Keynote Lecture: Gordon Dahl (University of California, San Diego) on "Intergenerational Spillovers in Disability Insurance"</b> Session Chair: Sara LaLumia, Williams College
<b>5:00pm - 5:30pm</b> <b>Main auditorium (Juhlasali), Main building</b>	<b>Closing Ceremony</b>
<b>7:00pm - 10:00pm</b> <b>Solo Sokos Hotel Tornio, Restaurant Paja</b>	<b>Conference Dinner</b>