

The Future of Fiscal Policy: American Economic Policy Debates in the 21st Century

Princeton University
Spring 2022, Session II

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(subject: SPI-593i)

Overview

This course will evaluate fiscal policies that governments will likely consider in the 21st century, from both empirical and theoretical perspectives. Recent economic developments (including technological change, the rise of robots, and geographic sorting) present many challenges for policymakers. After briefly reviewing some of these developments, the course will focus on assessing several likely policy responses: taxing capital and top-income earners, the safety net and redistribution, and place-based policies that aim to address spatial disparities in opportunity.

Course Outline (subject to change)

1. U.S. Fiscal Policy and the Deficit Debate
 - a. Fiscal policy, debt, and deficits
 - b. Government Intervention in the Economy
 - c. *Policy discussion: do we need to address rising US debt and deficits? If so, how?*
2. Capital taxation in the 21st century: taxation of wealth and investment income
 - a. Background on wealth inequality, capital gains taxation, wealth and estate taxes
 - b. *Policy discussion: should we introduce a top wealth tax? Or is it better to reform capital gains and estate taxation and if so how (e.g., mark-to-market, higher rates, exemption changes, etc)?*
3. Capital taxation in the 21st century: corporate taxation
 - a. Background on corporate taxation
 - b. *Policy discussion: how much should we tax corporations? Who benefits from corporate tax cuts? Should we broaden the base and lower rates? Should we have a global minimum tax at 15%? Should we have a minimum tax based on book income?*
4. Taxing top earners in the 21st century
 - a. Background on labor, top income taxation, and key tax expenditures
 - b. *Policy discussion: How high should top income tax rates be? How large should tax expenditures be? Should we eliminate the state and local tax deduction?*
5. Place-based policies and local economic development
 - a. Background on place-based policies and spatial disparities in opportunity
 - b. *Policy discussion: What is the economic case (if any) for targeting places instead of people? Should we invest in economic development for places or simply move people away from depressed areas?*
6. Tax and labor market policy toward low-income families

- a. Background on EITC, minimum wage, and universal basic income
- b. *Policy discussion: How generous should the safety net be? And how should we do it? Specifically, should we expand the EITC, increase the minimum wage, or provide everyone with a universal basic income, or something else?*

Office Hours:

Office hours will be by appointment

Grades:

The course grade will be determined as follows:

Weekly participation	25%
Weekly one-page policy memos	40%
One in class policy presentation	15%
Four-page policy proposal memo	20%

Course Format and Requirements:

The first week of class will be different from the remaining classes. The first week of class will give an overview of fiscal policy, describe the course, and then provide an introductory policy discussion on upcoming fiscal challenges.

Starting with the second week of classes, each week will have three components outlined below. The goal is to have an engaging, informative, and policy relevant discussion of central fiscal policy issues. Through in-class participation, students will put themselves into the shoes of policymakers sorting through tough policy decisions using economic analysis, evidence, and theory as a basis for debate.

1. Lecture component framing the key economic issues
2. Student-led presentation of background material on the policy
3. Interactive class discussion about the merits of different policy options to accomplish prescribed goal.

Participation

Attendance and participation in class discussion are very important components of the class. Students are expected to come to class having read and thought about the assigned materials. Students who are most successful will be those who come to class with initial perspectives on the topics presented grounded in the readings.

One in class policy presentation

Starting with the second week of class, each class session will have one group of students jointly present background information for the policy discussion that week. The presentation should include information on: (1) the goal of the policy and the problem it is trying to solve, (2) a description of how the policy works (e.g., what are the policy parameters, eligibility rules, etc.), (3) how have these policy rules evolved overtime, why did they change, and what are they currently, (4) who are the relevant stakeholders, what do they want, and who benefits from the policy, and (5) how well is the policy working and how does it impact economic activity?

Four one-page policy memos

Students who are not presenting that week will receive randomly assigned policy positions to defend in the discussion. They should prepare a one page, bullet point policy memo due midnight the day before class, which will be circulated to the class the morning before class.

Four-page policy proposal due at the end of the term

Each student should write a four-page policy proposal memo making the case to enact to new policy or to eliminate an existing policy that was not covered in the course. Similar to the policy presentation, the memo should include information on: (1) the goal of the policy and the problem it is trying to solve, (2) a description of how the policy works or would work (e.g., what are the policy parameters, eligibility rules, etc.), (3) who are the relevant stakeholders, what do they want, and who benefits from the policy, and (4) how does/ would the policy impact economic activity? (5) how much would it impact the budget?

Lecture Schedule and Readings (subject to change):

Week 1: U.S. Fiscal Policy, the deficit debate, and government intervention in the economy

A. U.S. Fiscal Policy and Fiscal Outlook

(*) Gale, William, 2019, *Fiscal Therapy: Curing America's Debt Addition and Investing in the Future. Chapters 1-3.*

<https://www.oxfordscholarship.com/view/10.1093/oso/9780190645410.001.0001/oso-9780190645410#.XWbNQITZC0.gmail>

Congressional Budget Office, 2019, "The Budget Outlook: 2021 to 2031,"

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Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman, 2018, "Distributional National Accounts: Methods and Estimates for the United States," *Quarterly Journal of Economics*, 2018, 133(2): 553-609.

<http://gabriel-zucman.eu/files/PSZ2018QJE.pdf>

B. Policy Discussion: Addressing US fiscal challenges

Elmendorf, Doug, and Greg Mankiw, 1999, "Government Debt" *Handbook of Macroeconomics*, Vol 1, Taylor, J.B., and M. Woodford, eds, Elsevier Science, B.V., pp. 1615-1699.

<https://www.sciencedirect.com/science/article/pii/S1574004899100387>

(*) Furman, Jason and Larry Summers, 2019, "Who's Afraid of Budget Deficits? How Washington should end its debt obsession," *Foreign Affairs*.

<https://www.foreignaffairs.com/articles/2019-01-27/whos-afraid-budget-deficits>

Furman, Jason and Larry Summers, 2019, "Further Thinking on the Costs and Benefits of Deficits."

<http://larrysummers.com/2019/04/23/further-thinking-on-the-costs-and-benefits-of-deficits/>

Elmendorf, Douglas, 2019, "Should we reduce federal budget deficits now?"

<https://www.hks.harvard.edu/more/about/leadership-administration/deans-office/deans-presentations/should-we-reduce-federal>

Auerbach, Alan, William Gale, Aaron Krupkin, 2019, "If not now, when? New estimates for the Federal Budget Outlook"

<https://eml.berkeley.edu/~auerbach/AGK%202.11.19.pdf>

Blanchard, Olivier, 2019, "Public Debt and Low Interest Rates"

<https://www.aeaweb.org/articles?id=10.1257/aer.109.4.1197>

Mankiw, Greg, 2019. “The National Debt is still a problem.” *New York Times*.
<https://www.nytimes.com/2019/06/20/business/national-debt-trump.html>

Krugman, Paul, 2019. “Melting Snowballs and the Winter of Debt.” *New York Times*.
<https://www.nytimes.com/2019/01/09/opinion/melting-snowballs-and-the-winter-of-debt.html>

Gale, William, 2019. “Fiscal policy with high debt and low interest rates.”
<https://www.brookings.edu/wp-content/uploads/2019/08/Gale-Aspen-revised.pdf>

Batchelder, Lily, and David Kamin, 2019. “Taxing the Rich: Issues and Options”

Matthews, Dylan, 2019, “How to tax the rich, explained”
<https://www.vox.com/2019/3/19/18240377/estate-tax-wealth-tax-70-percent-warren-sanders-aoc>

Davidson, Kate and Jon Hilsenrath, 2021. The Debt Question Facing Janet Yellen: How much debt is too much? *WSJ*. 1/18/2021.
<https://www.wsj.com/articles/the-debt-question-facing-janet-yellen-how-much-is-too-much-11610993908>

Mian, Atif, Ludwig Straub, and Amir Sufi (2022). A Goldilocks Theory of Fiscal Deficits. <https://scholar.harvard.edu/files/straub/files/goldilocks.pdf>

Week 2: Taxing Capital: Taxation of wealth and investment income

A. Economic Background

Saez, Emmanuel and Gabriel Zucman, 2016, “Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data,” *Quarterly Journal of Economics*, 131(2): 519-578.
<http://gabriel-zucman.eu/files/SaezZucman2016QJE.pdf>

Saez, Emmanuel and Gabriel Zucman, 2019, “How would a progressive wealth tax work? Evidence from the economics literature <https://eml.berkeley.edu/~saez/saez-zucman-wealthtaxobjections.pdf>

(*) Kopczuk, Wojciech, 2015, “What do we know about the evolution of top wealth shares in the united states? *Journal of Economic Perspectives*, 29(1): 47-66.
<https://www.aeaweb.org/articles?id=10.1257/jep.29.1.47>

Smith, Matt, Owen Zidar, and Eric Zwick, 2020, “Top Wealth In the United States: New Estimates and Implications,” working paper.

https://scholar.princeton.edu/sites/default/files/wealth_main_resubmitted.pdf

Kopczuk, Wojciech, 2016, “U.S. capital gains and estate taxation: a status report and directions for reform”

<http://www.columbia.edu/~wk2110/bin/CapitalGainsAndEstateTax.pdf>

Gravelle, Jane, 2018, “Capital Gains Taxes: An Overview” *Congressional Research Service Report 7-5700. 96-769.* <https://fas.org/sgp/crs/misc/96-769.pdf>

Poterba, Jim, 1989, “Venture Capital and Capital Gains Taxation” *Tax Policy and the economy.* <https://www.journals.uchicago.edu/doi/pdfplus/10.1086/tpe.3.20061783>

(*) Agersnap, Ole, and Owen Zidar, 2020, “The Tax Elasticity of Capital Gains and Revenue Maximizing Rates,” *American Economic Review: Insights 2021 3(4)*
<https://doi.org/10.1257/aeri.20200535>

(**) Sarin, Natasha, Larry Summers, Owen Zidar, Eric Zwick (2020), “Rethinking how we score capital gains tax reform,” working paper.

https://scholar.princeton.edu/sites/default/files/capgains-sszz_1.pdf

B. Policy Discussion

(**) Batchelder, Lily, and David Kamin, 2019. “Taxing the Rich: Issues and Options”

(**) Saez, Emmanuel, Danny Yagan, and Gabriel Zucman, 2021. “Capital Gains Withholding” <http://gabriel-zucman.eu/files/SYZ2021.pdf>

Kamin, David, 2019, “How to Tax the Rich” *Tax Notes.*

<https://taxprof.typepad.com/files/kamin.pdf>

(*) Saez, Emmanuel, and Gabriel Zucman, 2019, Progressive Wealth Taxation. *Brookings Papers on Economic Activity.* September.

<https://www.brookings.edu/bpea-articles/progressive-wealth-taxation/>

(*) Saez, Emmanuel and Gabriel Zucman, 2019, Scoring of Warren Wealth Tax Proposal

<https://eml.berkeley.edu/~saez/saez-zucman-wealthtax-warren-online.pdf>

(*) Sarin, Natasha and Larry Summers, 2019, “A ‘wealth tax’ presents a revenue estimation puzzle,” *Washington Post*.

<https://www.washingtonpost.com/opinions/2019/04/04/wealth-tax-presents-revenue-estimation-puzzle/>

Saez, Emmanuel and Gabriel Zucman, 2019, “Response to Summers and Sarin, ‘A wealth tax presents a revenue estimation puzzle,’ Washington Post, April 4”

<http://gabriel-zucman.eu/files/saez-zucman-responseto-summers-sarin.pdf>

Sarin, Natasha and Larry Summers, 2019, “Be very skeptical about how much revenue Elizabeth Warren’s wealth tax could generate” *Washington Post*

<https://www.washingtonpost.com/opinions/2019/06/28/be-very-skeptical-about-how-much-revenue-elizabeth-warrens-wealth-tax-could-generate/>

Kamin, David, 2016, “Taxing Capital: Paths to a fairer and broader US Tax System”

<https://equitablegrowth.org/wp-content/uploads/2016/08/081016-kamin-taxing-capital.pdf>

Huang, Chye-Ching and Chloe Cho, 2017, “Ten Facts you should know about the Federal Estate Tax” *Center on Budget and Policy Priorities*.

<https://www.cbpp.org/research/federal-tax/ten-facts-you-should-know-about-the-federal-estate-tax>

Joint Committee on Taxation, 2015, “History, Present Law, and Analysis of the Federal Wealth Transfer Tax System,”

<https://www.jct.gov/publications.html?func=startdown&id=4744>

Batchelder, Lily, 2016, “The ‘Silver Spoon’ Tax: How to Strengthen Wealth Transfer Taxation,” Washington Center for Equitable Growth, Delivering Equitable Growth: Strategies for the Next Administration, October 31.

<https://ssrn.com/abstract=2862144>

Avenancio-Leon, Carlos, and Troup Howard, 2020, “The Assessment Gap: Racial Inequalities in Property Taxation”

http://www.trouphoward.com/uploads/1/2/7/7/127764736/the_assessment_gap_-_racial_inequalities_in_property_taxation.pdf

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<https://link.springer.com/article/10.1007/s12114-010-9063-1>

C. Supplemental Readings

Cassidy, John, 2019 “Why Elizabeth Warren’s Wealth Tax Would Work” *New Yorker*.

<https://www.newyorker.com/news/our-columnists/elizabeth-warrens-wealth-tax-is-an-old-idea-and-its-time-has-come>

Olorunnipa, Toluse, 2019 “Warren’s ambitious agenda relies on a massive wealth tax that the rich may evade” *Washington Post*.

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Sarin, Natasha and Larry Summers, 2019, “Fair comprehensive tax reform is the right path forward” *Boston Globe*.

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<https://www.nytimes.com/2013/07/21/business/wealth-taxes-a-future-battleground.html>

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<https://t.co/uuvjf25PTh?amp=1>

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<https://www.nytimes.com/interactive/2019/08/12/upshot/are-you-rich-where-does-your-net-worth-rank-wealth.html>

Logan and Cook 2020. Racial Inequality. <https://econfp.org/wp-content/uploads/2020/07/27.Racial-Inequality.pdf>

Addo, Fenaba, Jason Houle, and Daniel Simon. 2016. “Young, Black, and (Still) in the Red: Parental Wealth, Race, and Student Loan Debt.” *Race and Social Problems*, 8(1), 64-76. <https://link.springer.com/article/10.1007/s12552-016-9162-0>

Kerwin Charles and Erik Hurst 2002. “The Transition To Home Ownership And The Black-White Wealth Gap,” *Review of Economics and Statistics*, 84.2, 281-297. <https://www.mitpressjournals.org/doi/abs/10.1162/003465302317411532?journalCode=rest&>

U.S. Financial Diaries Project. <https://www.usfinancialdiaries.org>. Click on "Meet the Households."

Week 3: Taxing Capital: Corporate Taxation

A. Economic Background

(*) Furman, Jason, 2014. "Business Tax Reform and Economic Growth."

https://obamawhitehouse.archives.gov/sites/default/files/docs/business_tax_reform_and_economic_growth_jf.pdf

(*) Cooper, Michael, John McClelland, James Pearce, Richard Prinszano, Joe Sullivan, Danny Yagan, Owen Zidar, and Eric Zwick, 2016, "Business in the United States: Who Owns it and How Much Tax Do They Pay?" in *Tax Policy and the Economy*, Cambridge: MIT Press, Vol 30: 90-128, Brown.

<https://scholar.princeton.edu/sites/default/files/zidar/files/cmppsyz-2016.pdf>

Auerbach, Alan, and Kevin Hassett, 2015, "Capital Taxation in the 21st Century."

<https://eml.berkeley.edu/~auerbach/Auerbach-Hassett%201-8-15.pdf>

Zucman, Gabriel, 2014, "Taxing Across Borders: Tracking Personal Wealth and Corporate Profits," *Journal of Economic Perspectives*, 28(4): 121-148.

<http://gabriel-zucman.eu/files/Zucman2014JEP.pdf>

Clausing, Kim, 2017, "Does Taxing US Corporations Make Sense in a Global Economy?" *Econofact*.

<http://econofact.org/does-taxing-u-s-corporations-make-sense-in-a-global-economy>

Suárez Serrato, Juan Carlos, and Owen Zidar, "Who Benefits from State Corporate Tax Cuts? A Local Labor Market Approach with Heterogeneous Firms" *American Economic Review*, 106(9): 2582-2624, September 2016.

Fuest, Clemens, Andreas Peichl, and Sebastian Siegloch. 2017. "Do Higher Corporate Taxes Reduce Wages?" forthcoming, *American Economic Review*.

Barro, Robert and Jason Furman, 2018, "The macroeconomic effects of the 2017 tax reform," *Brookings Papers on Economic Activity*. https://www.brookings.edu/wp-content/uploads/2018/03/4_barrofurman.pdf

(**) Council of Economic Advisers, 2017. "Corporate Tax Reform and Wages: Theory and Evidence"

<https://www.whitehouse.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf>

B. Policy Discussion

(**) The President's Economic Recovery and Advisory Board, 2010, "The Report on

Tax Reform Options: Simplification, Compliance, and Corporate Taxation,” pg 65-80.
<https://www.treasury.gov/resource-center/tax-policy/Documents/Report-Tax-Reform-Options-2010.pdf>

Summers, Larry, 2017, “One last time on who benefits from corporate tax cuts”
https://www.washingtonpost.com/news/wonk/wp/2017/10/22/lawrence-summers-one-last-time-on-who-benefits-from-corporate-tax-cuts/?utm_term=.bd5d8bfff55b

(*) Furman, Jason, 2017, “How to make tax reform bipartisan,” *WSJ*.
<https://www.wsj.com/articles/how-to-make-tax-reform-bipartisan-1491164051>

(*) Mankiw, Greg, 2017. “How to best tax businesses,” *New York Times*.
https://www.nytimes.com/2017/04/21/upshot/tax-code-business.html?_r=0

(*) Smith, Noah, “There’s a lot to like about cutting corporate taxes,” *Bloomberg*.
<https://www.bloomberg.com/view/articles/2017-05-04/there-s-a-lot-to-like-about-cutting-corporate-taxes>

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<https://www.treasury.gov/resource-center/tax-policy/Documents/Report-Responsible-Business-Tax-Reform-2017.pdf>

C. Supplemental:

Mankiw, Greg, 2014, “One way to fix the corporate tax: Repeal it,” *New York Times*.
<https://www.nytimes.com/2014/08/24/upshot/one-way-to-fix-the-corporate-tax-repeal-it.html>

Kotlikoff, Laurence, 2014, “Abolish the Corporate Income Tax,” *New York Times*.
https://www.nytimes.com/2014/01/06/opinion/abolish-the-corporate-income-tax.html?_r=0

Auerbach, Alan, 2010, “A Modern Corporate Tax” *Hamilton project paper*.
http://www.hamiltonproject.org/papers/a_modern_corporate_tax

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https://www.nytimes.com/2014/03/24/opinion/krugman-wealth-over-work.html?_r=0

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<https://chicagofed.org/publications/chicago-fed-letter/2017/382>

Murray, Alan, and Jeffrey Birnbaum, 1988. *Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform*.

<https://www.amazon.com/Showdown-Gucci-Gulch-Lawmakers-Lobbyists/dp/0394758110>

Piketty, Thomas, 2015, *Capital in the Twenty-First Century*.

<https://www.amazon.com/Capital-Twenty-First-Century-Thomas-Piketty/dp/1491591617>

Week 4: Taxing top earners

A. Economic Background

(*) Mankiw, N Gregory. 2013. "Defending the One Percent." *Journal of Economic Perspectives*, 27(3): 21-34.

<https://www.aeaweb.org/articles.php?f=s&doi=10.1257/jep.27.3.21>

(*) Diamond, Peter, and Emmanuel Saez. 2011. "The Case for a Progressive Tax: From Basic Research to Policy Recommendations." *Journal of Economic Perspectives*, 25(4): 165-90. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.25.4.165>

(*) Zidar, Owen, 2022. "Discussion of Top Incomes and Taxation," [The IFS Deaton Review](#).

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Akcigit, Ufuk, et al, 2018, “Taxation and innovation in the 20th century, working paper

https://scholar.harvard.edu/files/stantcheva/files/taxation_and_innovation_in_the_20th_century_vox_cepr_policy_portal.pdf

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B. Policy Discussion

(**) Gleckman, Howard (2021) “How the Democrats’ New Millionaire Surtax Would Work” <https://www.forbes.com/sites/howardgleckman/2021/10/28/how-the-democrats-new-millionaire-surtax-would-work/?sh=59cceed12877>

(**) CBO, 2013, “Options for Reducing the Deficit: 2014 to 2023” Revenues, Options 1-11, pg 99-128) <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44715-OptionsForReducingDeficit-3.pdf>

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(*) Cullen, Julie, and Roger Gordon, 2008, “Deductibility of State and Local Taxes: Is there a case for continuing this tax expenditure?” Working Paper

<http://econweb.ucsd.edu/~jbcullen/research/deductibility.pdf>

(**) CBO, 2008, “The Deductibility of State and Local Taxes:

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Walczak, Jared, 2017, “The State and Local Tax Deduction: A Primer”

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Week 5: Place-based policy

A. Economic Background

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https://www.washingtonpost.com/news/wonk/wp/2016/06/23/the-most-unlucky-places-in-america/?utm_term=.3686313df17a

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<https://www.wsj.com/articles/how-the-china-shock-deep-and-swift-spurred-the-rise-of-trump-1470929543>

B. Policy Discussion

(*) Kline, Pat, and Enrico Moretti, 2014, "People, Places, and Public Policy: Some Simple Welfare Economics of Local Economic Development Policies," *Annual Review of Economics*, August, 629-662.
<http://www.annualreviews.org/doi/full/10.1146/annurev-economics-080213-041024>

(*) Glaeser, Edward and Joshua D. Gottlieb, 2008. "The Economics of Place-Making Policies," *Brookings Papers on Economic Activity, Economic Studies Program*, The Brookings Institution, vol. 39 (Spring), pages 155-253.
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(*) Busso, Matias, Jesse Gregory, Pat Kline, 2014, "Results of the federal urban Empowerment Zone program"

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Week 6: The Safety Net

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