

End-of-chapter Questions

Chapter 13: The pursuit of Equity in Taxation

1.
 - a. What is a broad-based tax?
 - b. What are the main broad-based taxes in the U.S.?
 - c. What broad-based tax is used throughout Europe but not in the U.S.?
2. What are the main goals of tax policy and why is each goal worth pursuing?
3. Name four taxes that are part of public expenditure theory and discuss what purposes they serve in that theory.
4.
 - a. Under what conditions would there be no normative theory of taxation separate from public expenditure theory?
 - b. Are those conditions likely to apply? Explain.
 - c. If they do not apply, what new issues arise for a normative theory of taxation?
5. In the late 1700s, when Adam Smith and John Stuart Mill were writing on economics, what was the only normative principle of equity in taxation? What were the limitations of that principle in their view? In the view of modern economists?
6. Why did Smith and Mill view their ability-to-pay theory as a sacrifice theory of taxation? What principles did they think a sacrifice theory of taxation should embody?
7. What is Martin Feldstein's version of horizontal equity in taxation and how does it differ from the more commonly used version of horizontal equity in taxation?
8.
 - a. What three-step argument did Haig and Simons use to arrive at their conclusion that income is the ideal tax base?
 - b. What exactly is their ideal tax base, now referred to as Haig–Simons income, Y_{HS} ?
9.
 - a. What is the distinction between a tax base and a tax structure?
 - b. Which principles of sacrifice under the ability-to-pay perspective do they most closely relate to, and why?
10. Are there any permissible adjustments to or deductions from Haig–Simons income in calculating taxable income? If yes, what are they and why are they permitted? If no, why not?

11. Why is a sales tax inappropriate under the Haig–Simons view of the ideal tax base?
12. Is Haig–Simons income likely to be a good surrogate measure of utility? Why or why not? Explain.
13. Why do some economists believe that consumption is the ideal tax base and not Haig–Simons income?
14. Comment on the following statement: ‘Since lifetime income equals lifetime consumption (with a bequest counted as the final act of consumption), mainstream economists should not care whether income or consumption is taxed.’
15.
 - a. In the two-period model in the text comparing a personal income and a personal expenditures (consumption) tax, what adjustment to an income tax makes it equivalent to an expenditures tax? Explain.
 - b. In real-life economies, would that adjustment make the two taxes equivalent? Explain.
16.
 - a. What does it mean to say that a tax is progressive? Proportional? Regressive?
 - b. Would the measure of progressivity/proportionality/regressivity differ under the Haig–Simons income and the consumption views of the ideal tax base? If no, why not? If yes, how would they differ?
17. What is the principal objection of most mainstream economists to the ability-to-pay perspective on taxation? What approach would they prefer, and why?