

Contents

List of Tables	vii
List of Figures	xiii
Preface	xvii
I Introduction	1
2 Taxation of Income from Capital	21
2.1 Cost of Capital	23
2.2 Capital as a Factor of Production	26
2.3 Rates of Return	29
2.4 Capital Income Taxation	32
2.5 Households	34
2.6 Noncorporate Business	37
2.7 Corporate Business	41
2.8 Alternative Approaches	45
3 U.S. Tax System	49
3.1 Tax Rates	51
3.2 Distribution of Assets	60
3.3 Vintage Price Functions	72
3.4 Capital Cost Recovery	82
3.5 Financial Structure	92
3.6 Alternative Approaches	96
Appendix	101
4 Effective Tax Rates	125
4.1 Economic Impact of U.S. Tax Law	127
4.2 Effective Tax Rates	132
4.3 Differences in Effective Tax Rates	154
4.4 Alternative Approaches	162
5 Dynamic General Equilibrium Model	167
5.1 Commodities	169
5.2 Producer Behavior	172

5.3	Consumer Behavior	176
5.4	Government and Rest of the World	181
5.5	Market Equilibrium	193
6	Estimating the Parameters	199
6.1	Consumer Behavior	201
6.2	Producer Behavior	213
6.3	Elasticities	223
6.4	Other Parameters	231
	Appendix	235
7	Economic Impact of Tax Reform	247
7.1	Perfect Foresight Dynamics	249
7.2	Comparison of Welfare Levels	251
7.3	Computational Algorithm	254
7.4	Welfare Effects of Tax Reform	266
7.5	Efficiency Costs of Taxation	280
7.6	Efficiency Costs under the 1996 Tax Law	285
7.7	Alternative Approaches	293
	Appendix	306
8	Fundamental Tax Reform	317
8.1	Tax Reform Proposals	321
8.2	Modeling the Tax Reform Proposals	324
8.3	Welfare Impacts of Fundamental Tax Reform	332
8.4	Equivalence of Consumption and Labor Income Taxes	353
8.5	Efficiency Costs of Taxation	365
8.6	Alternative Approaches	375
	Appendix	386
9	Marginal Cost of Public Spending	409
9.1	Determinants of the MCS	411
9.2	Dynamic General Equilibrium Model	413
9.3	Estimation of the MCS	415
9.4	MCS under the 1996 Tax Law	417
9.5	MCS under Fundamental Tax Reform	424
9.6	Welfare Impact of the End of the Cold War	427
9.7	Alternative Approaches	440
	References	447
	Index	465